
Secretary of State

State of Oregon
DEPARTMENT OF JUSTICE
Special Review



Audits Division

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Auditing for a Better Oregon

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We have completed an audit of cash controls and the management of accounts receivable at the Department of Justice. Our objectives were to determine if adequate controls exist to safeguard cash receipts and record accounts receivable accurately.

This report makes specific recommendations that will improve cash controls and management of accounts receivable at the Department of Justice. Weaknesses in the department's cash controls could put cash receipts at risk and prevent the timely detection of a loss or theft of funds. The department received more than \$26.4 million in cash receipts in 1995; therefore, strong controls over the cash handling functions are important for safeguarding these funds. The department's accounts receivable include a number of aged and uncollectible items and do not include \$4.4 million of receivables resulting from judgments and assurances of voluntary compliance which the department collects for other state agencies and individuals. The department also has an opportunity to increase revenue in its Charitable Trust and Solicitation unit by more than \$20,000 annually by collecting the minimum fees established by *Oregon Revised Statutes* (ORS) 128.670.

Department management's response to the audit recommendations, including corrective action already initiated, is included in the report.

OREGON AUDITS DIVISION

Don Waggoner, CPA
State Auditor

Fieldwork Completion Date:
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SUMMARY

The Department of Justice (department) received more than \$26.4 million in cash receipts in 1995. These cash receipts, which consist of checks and other negotiable instruments as well as cash, can easily be converted to personal use and therefore are particularly susceptible to theft. The department's controls over recording, safeguarding, depositing and reconciling cash receipts need strengthening. Cash receipts are sometimes not recorded when received by the department, nor are they always properly safeguarded until deposited. Checks are sometimes not deposited in a timely manner. Procedures for monitoring and reconciling cash accounts are inadequate to prevent or detect errors and irregularities promptly.

These weaknesses in cash controls are compounded by the lack of separation of duties for employees in the Administrative Services section and for the professional fund-raisers' registrar in the Charitable Trust and Solicitation unit.

The department is responsible for monitoring and collection of certain amounts owed to the department, other state agencies or consumers. Its accounts receivable include a number of aged and uncollectible items. Fifty-one percent of the \$7.1 million recorded receivable balance was more than 90 days old as of December 31, 1995; more than \$3,000,000 had been outstanding for more than six months. Approximately 73 percent of the delinquent accounts more than 180 days past due stem from judgments and assurances of voluntary compliance. Further, at least \$2.17 million of this amount was uncollectible or in error. Uncollectible accounts receivable had not been written off since 1993; at that time the required Secretary of State's approval was not requested. Receivables totaling \$4.4 million were not recorded in the department's accounting records. These receivables, resulting from judgments or assurances of voluntary compliance, may not be collected if they are not formally controlled and accounted for by the department.

Also, some years ago, the Charitable Trust and Solicitation unit chose to stop collecting the \$10 minimum annual fee from small charitable organizations. The Charitable Trust and Solicitation unit can increase its revenue by more than \$20,000 annually by collecting the statutory minimum fees.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Department of Justice, established by statute in 1891, represents and advises all elected and appointed state officials, agencies, boards and commissions. The department is administered by the elected attorney general who has control and supervision of all court actions in which the state is a party or has an interest.

In addition to legal services, the department also provides technical and investigative assistance to district attorneys and assists law enforcement agencies through its criminal intelligence unit. The department's Support Enforcement Division establishes and enforces child support obligations for families who receive public assistance. The Civil Enforcement Division protects Oregon consumers by enforcing Oregon's antitrust, securities, civil racketeering, unlawful trade practices and charitable solicitations laws. The department's mission is to fulfill these and other duties as set out in *Oregon Revised Statutes Chapter 180*.

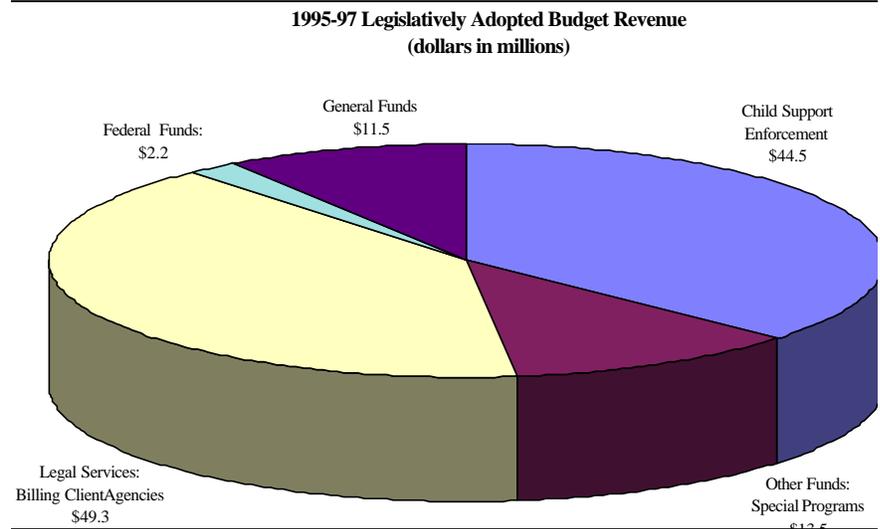
To accomplish its mission, the department is organized into six operating divisions: Appellate, Civil Enforcement, Criminal Justice, General Counsel, Support Enforcement and Trial. The Administrative Services section provides administrative support for the entire department.

FINANCIAL ACTIVITIES

The Department of Justice's legislatively adopted budget for the 1995-97 biennium totals \$121.9 million from Other Funds, General Funds, and Federal Funds. Other Funds, the largest revenue source, total \$108.2 million for the biennium.

Approximately \$49.3 million of Other Funds is expected to be generated by charges to state agencies for legal services. The second largest portion, approximately \$44.5 million, comes from the Department of Human Resources, Adult and Family

Services for child support enforcement activities. The remaining amount, approximately \$13.5 million, comes from fees charged to charitable and non-profit organizations for registration and filing of financial reports, and funds collected by the State Court Administrator for criminal fines and fees.



Nearly half of the 832 full-time-equivalent (FTE) positions approved in the 1995-97 biennium budget are in the Support Enforcement Division. Approximately 363 FTE employees provide legal services. The Administrative Services section includes 45 FTE positions.

SCOPE, OBJECTIVES AND METHODOLOGY

This audit focused on two areas: the department's cash controls and its management of accounts receivable. Our primary objective in the first area was to determine if adequate controls exist to safeguard cash receipts and provide for the timely detection of errors or irregularities. In this regard, we reviewed the adequacy of existing procedures for cash-handling and manual check processing, including controls over access to blank check stock and the check-signing machine. We also considered the impact of the department's decentralized organization structure on critical controls. A secondary objective for cash controls was to

determine whether cash receipts are deposited timely and into the correct accounts.

Our objective in reviewing accounts receivable was to determine whether all valid receivables were properly recorded, and whether uncollectible receivables are written off as required by *Oregon Revised Statutes* (ORS) 293.240.

In reviewing collection of accounts receivable, our purpose was to determine if collection is appropriate and timely and whether procedures exist to monitor and report on collection activity.

For all areas reviewed, we considered whether selected activities are conducted in compliance with applicable state laws, rules and regulations.

We focused primarily on the department's Administrative Services section which accounts for cash receipts and accounts receivable, and to a lesser extent, on specific units within the Civil Enforcement Division: the Credit and Bankruptcy units in Portland and Salem, the Charitable Trust and Solicitation unit in Portland, and the Financial Fraud unit in Salem, which receive the largest volume of cash receipts.

To fulfill these objectives, we interviewed the department's staff, analyzed pertinent records and observed related activities. We conducted this audit according to generally accepted government auditing standards. We limited our review to those areas specified above.

CHAPTER I: CASH CONTROLS

The Department of Justice (department) received more than \$26.4 million in cash receipts in 1995. Our audit identified weaknesses in the department's cash controls that could put cash receipts at risk and prevent the timely detection of a loss or theft of funds. Cash receipts, which consist of checks and other negotiable instruments as well as cash, can easily be converted to personal use and therefore are particularly susceptible to theft.

The department's controls over recording, safeguarding, depositing and reconciling cash receipts need strengthening. Cash receipts are sometimes not recorded when received by the department nor are they always properly safeguarded until deposited. Checks received on behalf of the Department of Veterans Affairs are forwarded to that agency without being recorded in a cash receipts log. In the Salem Credit and Bankruptcy unit, checks awaiting pick-up for interagency delivery are kept in open mail slots at the mail clerk's desk to which all employees have access. The Administrative Services' safe was left unlocked throughout the day, placing at risk the negotiable instruments, blank check stock and confidential items stored in the safe. In addition, security for bank deposits in transit needs improvement.

Procedures for monitoring and reconciling cash accounts are inadequate to prevent or detect errors and irregularities promptly. Because the Business Services Manager does not review cash account reconciliations for discrepancies, they do not provide an effective control. The reconciliations we reviewed contained errors and were not prepared timely which further limited their effectiveness. Furthermore, the client trust cash account had not been reconciled to the actual cash balance since June 1995.

Although Administrative Services deposits most checks promptly, weak monitoring controls over the safe resulted in delayed deposits of some checks. Furthermore, the Charitable Trust and Solicitation unit does not promptly deposit checks received. Although the timeliness of its deposits has improved, daily deposits of its cash receipts are warranted. Improving the timeliness of bank deposits can help reduce the risk of misappropriation and increase the state's interest revenue.

These weaknesses in cash controls are compounded by the lack of segregation of duties for employees in Administrative Services and for the professional fund-raisers' registrar in the Charitable Trust and Solicitation unit. Employees with access to blank checks stored in Administrative Services' safe also have access to the check-signing machine; therefore, the risk of theft from the department's cash suspense accounts is greater. Some cash account reconciliations are prepared by individuals who also record transactions in the accounts; therefore, they do not provide an independent check on account activity. The registrar for professional fund-raisers records checks in the cash receipts log, prepares and delivers the bank deposit and sends copies of the deposit receipt and checks to Administrative Services to be recorded in the accounting records. The opportunity for misappropriation of funds would be reduced if these duties were divided functionally between existing staff.

RECORDING OF CASH RECEIPTS

Cash receipts logs maintained by the department need improvement to be effective. According to the required guidelines for state agencies, cash receipts should be recorded as soon as they come within the agency's control (Oregon Accounting Manual (OAM)03 01 00.PR.109). To detect subsequent loss or theft, it is important to make a record of all checks immediately after receipt. Cash receipts logs establish control over cash and negotiable items and provide an audit trail to determine accountability. A properly prepared cash receipts log lists all remittances received, the date each remittance was received, the amount and form of each remittance, the name of the remitter, and the purpose for the remittance, if known.

Properly completed cash receipts logs provide a means to compare amounts received to accounts receivable, and deposits.

- A.** Staff opening the mail for the Charitable Trust and Solicitation unit and the Credit and Bankruptcy unit in Salem do not use cash receipts logs to record checks received.

- B.** In both the Salem and Portland Credit and Bankruptcy units, the cash receipts logs are incomplete and inaccurate. Logs in both units include receipts not actually received by the unit. For example, in Portland a \$53,000 receipt reported on the log was actually a check in the amount of \$53,162.05 which went directly to the Department of Revenue. The Salem unit's logs also exclude the date remittances are received and include only the last name of the debtor.

- C.** In Administrative Services, a modified cash receipts log forms the support for daily deposits into each cash account. The original cash receipts log prepared by the receptionist is forwarded on a computer disk to an accounting assistant, who modifies the log to reflect the cash account for each receipt. The original cash receipts log is not periodically compared to deposits. As a result, receipts on the original cash receipts log could be deleted from the log. Periodic comparisons of the original cash receipts log to deposits would

reduce the risk of undetected misappropriation of funds.

For cash receipts logs more than two months old, only one disk copy is maintained. We were unable to determine when a check deposited on November 16, 1995 was received, because the disk was defective and another copy of the log was not available.

- D.** Administrative Services performs reconciliations of all cash accounts for the department. The Charitable Trust and Solicitation unit does not send copies of its cash receipts logs to the division for periodic review. Without a comparison of this log to deposits, there is no assurance that receipts were deposited in a timely manner or at all.

RECOMMENDATIONS

We recommend that the department ensure that original cash receipts logs:

- Are used by all units that receive cash receipts.
- Reflect all remittances received and exclude amounts received by other entities.
- List the date of receipt, the amount and form of each remittance, the name of the remitter, and the purpose of the remittance, if known.
- Are compared to deposits periodically during the division's cash reconciliation process.

TIMELY DEPOSIT AND SAFEGUARDING OF CASH RECEIPTS

Good business practice requires that cash and checks be deposited daily and safeguarded until deposited. The required guidelines for state agencies set the same standard (OAM 03 01 00.PR.120-121). Deposit delays result in lost earnings to the state. The following procedures contribute to the lack of timely deposits and the inadequate safeguarding of receipts:

- A.** During calendar year 1995, the department's Charitable Trust and Solicitation unit deposited checks in batches. Some checks were deposited two weeks after they were received. The unit is attempting to deposit checks promptly in calendar year 1996. However, deposits are only being made twice a week, rather than daily.
- B.** The Charitable Trust and Solicitation unit occasionally receives checks intended for the department but made payable to other state agencies or non-state entities, such as the Internal Revenue Service. Instead of depositing these checks as permitted by ORS 74.0204 (4), the unit returns them to the sender along with a request for a new check. A record of returned checks is not maintained.
- C.** The Credit and Bankruptcy units in both Salem and Portland regularly receive checks on behalf of other state agencies and other units within the department. Occasionally Administrative Services also receives checks on behalf of other agencies or department units. Rather than being deposited, these checks are forwarded to the other agencies or department units using the state's interagency shuttle or U.S. mail. This results in deposit delays and places the checks at risk of loss or theft until they are deposited. For example:

 - 1.** Checks awaiting pick-up for interagency delivery in the Credit and Bankruptcy unit in Salem are kept in open mail slots at the mail clerk's desk. Since access to the desk is unrestricted, everyone in the office has access to the checks.
 - 2.** Portland unit: Four checks totaling \$609,877 were deposited five days after receipt because they were sent by interagency shuttle from Portland to Salem. These checks were handled not only by employees within the department, but also by employees of another department at two separate locations before being credited to the recipient agency. A fifth check for \$53,781 was deposited five days after receipt because it was sent by mail to the other agency.

- 3.** Salem unit: One check for \$248,829 received on behalf of the Department of Veterans Affairs was deposited five days after it was received. This check was handled by two units within the department before being forwarded to the Department of Veterans Affairs.
- D.** Department attorneys may be given checks for restitution directly. We examined 20 case files in the Financial Fraud unit to determine the timeliness of deposit for checks received by attorneys. We were not able to determine if checks were deposited promptly since attorneys did not note the receipt dates or reasons for holding checks. However, in nine of the 12 cases in which payments had been made, checks were not deposited within three business days of the dates they were written.
- E.** Some checks are held in the division's safe pending resolution of cases, however, the safe's contents are not regularly monitored. In January 1996, we found two checks for \$21,795 and \$3,750 that could have been deposited earlier. The \$21,795 check, dated December 15, 1995, was being held until the judge signed a related judgment. As a result of our inquiry, accounting personnel determined that the judgment had been signed the previous week and the check could be deposited. The second check, dated April 19, 1995, could have been deposited by department personnel several months earlier.
- F.** Security over bank deposits in transit needs strengthening to protect deposits from loss. During the audit, an employee of another state agency found an envelope containing the department's daily deposit on the sidewalk outside the Justice Building. The deposit, which totaled approximately \$2,600, had been lost by the employee taking it to the bank.

RECOMMENDATIONS

We recommend that the department:

- Deposit checks daily.
- Deposit checks intended for the Department of Justice, even if they are made payable to another entity. Endorsement may be made in the name stated in the negotiable instrument or in the holder's name or both, as required by the financial institution in which it is deposited.
- Deposit checks received on behalf of other agencies or other units into the appropriate account the same day they are received. Copies of deposit slips should be sent to the agencies or units involved.
- Enforce the policy requiring attorneys to immediately turn over checks to accounting personnel for deposit or safeguarding. If proper disposition cannot be determined, a reference copy of the check can be kept by the attorney, while the check is secured in the safe.
- Hold checks only with appropriate justification. If checks must be held, the reasons should be documented. Checks held should be adequately safeguarded and monitored in a central secured location within each unit. Since the Financial Fraud unit is located near the Administrative Services section, checks it receives can be forwarded to the division with appropriate instructions.
- Contract with an armored carrier to transport deposits to the bank. Other agencies, such as the Department of Veterans' Affairs, pay \$180 per month for daily deposit service.

NEED FOR SEGREGATION OF DUTIES

The segregation of duties in the division is inadequate to lessen the risk of misappropriation of funds. This risk is increased due to easy access to blank check stock and the check-signing machine.

Good business practice requires that accounting functions such as initially logging in receipts and recording receipts in the accounting records be assigned to different employees to ensure adequate segregation of duties. The Oregon Accounting Manual's required guidelines for state agencies also include segregation of duties (OAM 03 01 00.PR.106 and PR.130). For cash receipts, the duties of initially logging in receipts, making deposits, recording receipts in the accounting records, and preparing monthly cash suspense account reconciliations should be segregated. These duties can be reassigned among existing staff; with careful analysis, more than one duty can be assigned to one person. By preventing one person from performing all duties for a single account, segregation of duties provides a system of checks and balances to validate each transaction.

- A. Segregation of duties for the department's cash suspense accounts needs improvement. The balances in the four suspense accounts totaled \$3.2 million as of December 31, 1995.

Accounting duties for two accounts are assigned by account rather than by accounting function. One individual is assigned responsibility for all accounting duties related to the account, from check preparation to performance of the monthly bank reconciliation. For the other two accounts, two or more accounting duties were not properly segregated. For example, the person who prepares checks also records disbursements. Although this approach may seem the most efficient, it places the cash in these accounts at risk.

The risk of misappropriation is increased because all accounting personnel and others physically in the accounting area have access to both blank check stock, kept in an unlocked safe, and the check-signing machine. During the audit, we observed the check-signing machine on an employee's desk, unattended, with the signature plates and operating keys in the machine. Furthermore, the check-signing machine's capability of recording the number and dollar amount of checks is not being used and reconciled to cash disbursement records as required by the Oregon Accounting Manual guidelines

(OAM 03 01 00.PR.131e). This lack of control over access to negotiable items not only increases the risk of misappropriation, but also compromises the department's ability to identify the responsible party should a misappropriation or theft occur.

The department does not require that checks over a certain amount be manually signed by more than one person as required by the Oregon Accounting Manual guidelines (OAM 03 01 00.PR.128d). Although the department does require large checks to be initialed, this control is not adequate given the ease of access to check stock and the lack of segregation of duties in accounting functions.

- B.** The person making daily cash deposits in the division also modifies the cash receipts log to assign account numbers and for some accounts, prepares the input documents for deposits in the accounting records.

In the Charitable Trust and Solicitation unit, the registrar for professional fund-raisers records checks in a cash receipts log, prepares a deposit slip and takes the deposit to the bank. This employee also sends copies of the validated deposit slip and checks to Administrative Services where the deposit is recorded in the accounting records.

In both these cases, additional segregation of duties will improve the department's internal controls by preventing one employee from controlling both the cash receipts and the accounting records.

RECOMMENDATIONS

We recommend that Administrative Services:

- Reassign staff to obtain maximum possible separation of accounting duties.
- Restrict access to blank check stock by securing the safe.

- Control access to the check-signing machine. Keys should be removed from the machine when not controlled by a designated individual.
- Use the automated check-signing machine register and reconcile it regularly to disbursements records.
- Require checks over a certain dollar amount be manually signed by two authorized signers.

We recommend that the Charitable Trust and Solicitation unit:

- Reassign duties among existing staff to obtain maximum possible separation of accounting duties.
- Send a copy of the cash receipts log to the division with the copies of the validated deposit slip and checks.

CONTROLS OVER SAFE CONTENTS

We inventoried the contents of Administrative Services' safe and observed access controls. Good business practice requires that controls be in place to protect assets or sensitive materials from loss, misappropriation, and theft. Access and monitoring controls ensure that valuables and sensitive materials are protected and accounted for, and that disposition of some items, such as the deposit of checks, occurs in a timely manner. Examples of valuable or sensitive items kept in Administrative Services' safe include:

- blank suspense account checks
- checks made payable to and from the department
- vehicle titles
- investigator badges and
- confidential case information.

During our audit we noted significant deficiencies in access and monitoring controls for the safe.

- A.** The safe is located in an open area in the accounting section. It is unlocked at 8:00 a.m. and remains

unlocked until 5:00 p.m. During the audit we observed the use of a magnetic “open/locked” sign on the safe. Five employees know the combination to the safe. Three of these employees also have signing authority for suspense account checks; blank check stock for these accounts is stored in the safe. Employees with check-signing authority should not have access to the safe. However, since the safe is unlocked in the morning and remains unlocked throughout the day, all employees in the section have unsupervised access to the safe during working hours.

Non-employees may also have access to the safe. While in the area, we observed a technician working on a copy machine located on top of the safe.

B. A listing is not maintained of the safe’s contents nor is any regular monitoring performed. On January 12, 1996, we inventoried the following items in the department’s safe:

- A stack of blank checks for the Crime Victims Assistance and Compensation account. Checks have not been written on the account for two years, since payments to crime victims are now made by warrants issued through the State Department of Administrative Services. The account balance was \$150,000 as of December 31, 1995. Because blank check stock had not been destroyed and funds had not been transferred to the new account, this amount was at risk of misappropriation.
- A check dated December 12, 1995 for \$89,338 payable to a private party. Accounting personnel did not know the status of the check. The matter was subsequently resolved on January 19, 1996.
- A check dated October 13, 1995 for \$258,358 payable to the state Department of Administrative Services for \$195,000 of telephone equipment and the department’s monthly phone bill. When checks are written, funds are moved from higher interest-earning investments to short-term, lower-paying investments. Therefore, interest is lost during the time period checks are held. Payments between

state agencies could be transferred to avoid loss of interest.

RECOMMENDATIONS

We recommend that the department:

- Require the safe to be locked except when specific access is required. Change the safe combination immediately. Limit access to the safe to authorized personnel. As long as blank check stock is in the safe, authorized personnel should not include staff with check-signing authority or responsibility for reconciling checking accounts.
- Maintain a log of items placed in and removed from the safe. The department should also perform regular inventories of the safe's contents and compare the contents to the log. The items in the safe should be reviewed at least monthly to determine if they can be removed from the safe and distributed properly.
- Close the Crime Victims suspense account and transfer the balance to the Crime Victims control account. Contact the state Department of Administrative Services for procedures to follow in destroying unused check stock for this account.

NEED TO MONITOR CLIENT TRUST CASH ACCOUNT

The department receives restitution due to others, often as the result of mediating disputes between consumers and businesses through the Financial Fraud unit. Restitution is deposited into a client trust cash account where it remains until distributed. This account had a balance of \$3,015,969 on December 31, 1995.

The Administrative Services section fulfills its fiduciary responsibility for this account with assistance from the department's attorneys. The department can improve the way it discharges this responsibility.

- A.** Administrative Services generally relies upon attorneys or investigators involved in the original case

to notify them when distributions from the client trust account can be made. A separate project file is set up for each action that will result in a distribution of funds. An aging analysis is not performed on project file balances to monitor the length of time that funds are held in the client trust cash account. Given the workload of the department's attorneys, the department needs a systematic approach to monitoring these cash balances. Administrative Services occasionally sends a memo to attorneys informing them of balances; however, the last memo was sent on April 12, 1995. Without regular monitoring, intended recipients may not be receiving timely restitution payments.

- B.** If added together, the cash balances recorded in the separate project files should equal the total cash balance in the client trust cash account. The division does not reconcile the individual project files to the general ledger balance for the client trust cash account. In addition, at the time of our audit, the general ledger balance for the client trust cash account had not been reconciled to the actual cash balance recorded by the Oregon State Treasury since June 1995. Without timely reconciliations, errors in the accounting records or misappropriation of funds could occur without timely detection. Furthermore, incorrect amounts could be distributed. The new Statewide Financial Management System will allow the use of automated subsidiary records rather than manual project files; this will also make reconciliation easier.
- C.** Interest accrued on funds held in the client trust cash account has not been recorded in the accounting records since June 1995. As a result, funds payable to the Consumer Protection and Education Account or available to pay restitution to victims may have been understated.

RECOMMENDATIONS

We recommend that the department:

- Use an aging analysis to monitor the client trust project files to ensure timely restitution payments are made. Contact the state Department of Administrative Services to determine how the new Statewide

Financial Management System can best be used to meet the department's need to account for funds related to separate legal actions. Under the new system, project files will no longer be available; however, subsidiary records can be created.

- Perform timely reconciliations of project files to the total client trust cash account balance. Reconcile the department's accounting records to the balance recorded by the Oregon State Treasury monthly.
- Record interest in the accounting records monthly.

USE OF CASH RECONCILIATIONS AS A CONTROL

Monthly cash reconciliations are essential to demonstrate the department's accountability for cash. Properly prepared cash reconciliations, that compare the department's recorded cash balances and transactions to bank records, aid in the detection of errors and misappropriations. They also enable the department to determine correct cash balances.

To be effective, a cash reconciliation must be prepared properly, timely and independently, by an individual whose other accounting duties do not compromise the integrity of the reconciliation. Large outstanding checks and other outstanding items should be researched to determine their status and disposition. Management must review the reconciliation to determine whether the disposition of such items is appropriate.

The reconciliation process does not end when the reconciliation is completed. All correcting adjustments and additional entries to the department's accounting records, identified by the reconciliation process as necessary, must be made promptly. Annually, the department should write off checks more than two years old and submit them to the Division of State Lands as required by *Oregon Revised Statutes (ORS) 293.450*. This ongoing maintenance of the department's accounting records is necessary to provide management with reliable information on cash balances available to meet department needs.

- A.** Timely reconciliations have not been prepared. At the time of our audit in March 1996, the last reconciliation available for the Client Trust Suspense Account was for June 1995. In addition, the July 1995 reconciliations for three other cash accounts were prepared in October 1995.
- B.** In the department's Operating Account reconciliation, items needing correction or transfer to other accounts were combined and classified as "deposits outstanding." "Deposits outstanding" was the explanation for \$78,479, comprised of three separate items, which represented corrections that needed to be made rather than deposits. Of this amount, \$63,651 was related to corrections needed to move funds from the operating account to two other accounts. This reconciling item also shows that corrections are not made promptly since it related to a new billing system implemented in December 1993. The accounting records were not corrected until 18 months later and the funds were not transferred until November 1995, nearly two years later.
- C.** For the State Petroleum Cost Share Suspense Account and the Current Expense Account, deposits and checks have not been recorded in the department's accounting records since June 1995. Interest is earned monthly and checks are paid throughout the year from these accounts.
- D.** For the Client Trust and Current Expense Suspense Accounts, a report of checks outstanding more than two years had not been submitted to the Division of State Lands as required by ORS 293.450. When an agency report is filed, the State Treasurer transfers funds for these checks to the Unclaimed Property Revolving Fund at the Division of State Lands. After our inquiry, the department filed a report showing 67 outstanding checks totaling \$45,309 for the Client Trust Suspense Account and 137 checks totaling \$2,447 for the Current Expense Suspense Account. Two checks, outstanding in the Client Trust Suspense Account since May 1993, totaled \$37,100. Upon further inquiry, we discovered that replacement checks had been issued in October 1995, after the original, stale-dated checks were

located by the state agency that misplaced them. The Oregon Accounting Manual's required guidelines for state agencies include investigation of details of transactions for checks outstanding for more than one reconciliation period (OAM 03 01 00.PR.136f).

- E.** Included in the department's operating cash account was \$310,000 not used since June 30, 1993. At our request the department's accounting staff researched the issue. They determined that these funds should have been transferred to the Consumer Protection Education revolving account established by the Legislative Assembly effective July 1, 1993. Because the funds were not transferred, they were not available to be used for the purpose intended.
- F.** Controls over the Operating Account reconciliation can also be improved by:

 - Properly researching needed corrections to accounts. Numerous unnecessary adjusting journal entries were sometimes made to the department's accounting records to correct a single error.
 - Timely resolution of errors. In October 1995 the department discovered that three of its July bank deposits, totaling \$41,000, had not been posted to its operating account. The July 1995 reconciliation was not prepared until October 30 and the State Treasury was not notified until November 15, 1995.
- G.** Reconciliations for the cash accounts are not reviewed by a supervisor. Supervisory review may have prevented some of the conditions noted above.

RECOMMENDATIONS

We recommend that the department:

- Assign each account reconciliation to accounting staff not otherwise involved in preparation of deposits and checks, or recording of transactions for the particular account.
- Require accounting staff to prepare reconciliations timely, research outstanding items adequately, show sufficient detail to reflect the nature of the reconciling item, and correct reconciling items in a timely manner, maintaining sufficient documentation to support any adjustments to the accounting records. Training should be provided as necessary to ensure that accounting staff has the necessary skills to perform these tasks.
- Report checks outstanding more than two years as of July 1 to the Division of State Lands annually in compliance with ORS 293.450.
- Require that all reconciliations be reviewed and initialed by supervisory personnel.

CAUSES

The department had not established and enforced standard cash-handling procedures for all department units that process cash receipts. Thus there is significant variation in the use of cash receipts logs and frequency of bank deposits within the department. Further, the department has not analyzed existing cash-handling procedures for efficiency and effectiveness. One unit returns checks that show other state entities as payees when, according to the Oregon State Treasury, these checks may be deposited as written. Some units send checks for other agencies by messenger or US mail instead of depositing them immediately into the appropriate agency's account or a suspense account. These practices indicate a lack of familiarity with the required guidelines for state agencies in the Oregon Accounting Manual.

Department management had not made internal controls a priority. In the past, hiring legal expertise took precedence

over hiring accounting expertise. Three years ago, the department eliminated the controller position that would have been responsible for analyzing the department's operations and designing appropriate accounting policies and procedures. A non-accountant who managed another area assumed these responsibilities in addition to his prior duties. As a result, responsibilities previously assigned to the controller have been delegated to a staff person who also performs routine accounting duties. This delegation is inappropriate because it permits inadequate segregation of duties.

Further evidence of the need to strengthen accounting management can be found in the Annual Internal Control Certification completed by management and sent to the Department of Administrative Services on March 15, 1995. The certification includes a lengthy questionnaire designed to identify control weaknesses. Answers to several questions reported the existence of controls where controls are actually ineffective or nonexistent. Examples include the need for better separation of accounting duties and safeguarding of undeposited checks and other valuables.

CONCLUSION:

The department needs to improve its cash controls. Under current procedures, loss or theft of funds could occur without timely detection and identification of responsible parties. Standard cash-handling procedures, based on the *Oregon Accounting Manual* and implemented department-wide, can help protect not only the department's cash receipts but also its employees. Without procedures to help identify the responsible party, all employees are suspect in the event of loss or theft.

CHAPTER II: MONITORING AND COLLECTION OF ACCOUNTS RECEIVABLE

The monitoring and collection of accounts receivable at the Department of Justice (department) could put funds owed the department or its clients at risk. The department's accounts receivable consist of funds owed to other state agencies and consumers which the department collects, as well as funds owed to the department itself. Without management attention and effective collection procedures, these accounts receivable may become uncollectible.

Fifty-one percent of the department's \$7.1 million recorded receivable balance was 90 days or more overdue as of December 31, 1995; over \$3 million had been outstanding for more than six months. Approximately 73 percent of the delinquent accounts more than 180 days past due stem from judgments and assurances of voluntary compliance. At least \$2.17 million of this amount is uncollectible or recorded in error. Uncollectible accounts receivable have not been written off since 1993; at that time, the Secretary of State's approval was not received as required by ORS 293.240. In addition to the recorded accounts, \$4.4 million of receivables resulting from judgments and assurances of voluntary compliance were not recorded in the department's accounting records. These receivables, which the department manages for state agencies or individuals, may not be collected if they are not formally controlled and accounted for by the department.

In recording receivables for judgments and assurances of voluntary compliance, accounting staff must often contact the attorney involved to determine how to record them. This time-consuming process is a low priority for staff with numerous other duties; therefore, receivables may not be recorded. Furthermore the process lends itself to error. For example, one receivable recorded as \$1.5 million should have been recorded for \$2.06 million.

Adherence to written policies and procedures for recording, monitoring, collecting and writing off accounts receivable would alleviate the problems we noted in these areas.

Although our audit focused primarily on the Administrative Services section and the Salem branch of the Credit and Bankruptcy unit, we also reviewed collection procedures in the Charitable Trust and Solicitation unit. This unit can increase its revenue by more than \$20,000 annually by collecting the minimum fees from all charitable organizations as required by ORS 128.670.

**RECORDING AND
MONITORING ACCOUNTS
RECEIVABLE**

Accounting records in the department show that, as of December 31, 1995, \$3.5 million of the recorded \$7.1 million receivable balance was more than 90 days past due; of this amount, \$3,090,546 was more than 180 days past due. Approximately 73 percent of the delinquent accounts more than 180 days past due stem from judgments and assurances of voluntary compliance obtained by the Financial Fraud unit. (Assurances are agreements voluntarily entered into by businesses before a complaint is filed.)

Besides the significant delinquent balance, we found instances where accounts receivable resulting from legal actions had not been recorded or were recorded for incorrect amounts. We also noted accounts receivable totaling \$950,979 that are no longer enforceable and should be written off in compliance with *Oregon Revised Statutes* (ORS) 293.240.

The department lacks automated aging analysis reports for monitoring accounts receivable. Without computer-assisted analysis, the manual monitoring process is labor-intensive and inefficient. As a result, aging analyses are not prepared for all accounts receivable.

Some accounts receivable monitoring problems are due to the difficulty of interpreting the documents resulting from legal actions. The attorneys handling the cases forward the judgments and assurances of voluntary compliance to accounting personnel. However, the accounting staff sometimes does not understand the terms of the judgments or agreements, making it difficult for it to correctly record a receivable.

We noted the following related problems during our audit:

- A. The department does not have written collection procedures for setting priorities and monitoring delinquent receivables, as required by the Oregon Accounting Manual's guidelines for state agencies (OAM 03 03 00.PO.103b and 03 03 00.PR.105). Further, an aging analysis is not prepared for

receivables resulting from judgments and assurances of voluntary compliance although the guidelines for state agencies require aging and analysis of accounts receivable (OAM 03 03 00.PO.117). The Department of Justice will be converting to a new accounting system in September 1996. The new system allows for the creation of subsidiary records and may be able to provide the department with the automated aging analysis reports it needs.

- B.** Of ten large receivables totaling more than \$2.19 million, approximately \$2.17 million was uncollectible or recorded in error and should have been written off. No efforts had been made to collect five of these 10 receivables in more than two years. One judgment recorded in the accounting records for \$1.5 million should actually have been shown as \$2.06 million. This judgment was very complex and required the help of one of the department's attorneys to determine the correct amount due.
- C.** Some known receivables for financial fraud cases were not recorded in the accounting records. We noted nine judgments and assurances of voluntary compliance totaling \$437,238 that were not recorded. Payments were received on four of these receivables. In addition, a \$10.5 million judgment on which the defendant has been making regular payments had not been included in the department's receivable records. This judgment, collected on behalf of Oregon's state universities, had a remaining balance of approximately \$4.1 million as of February 7, 1996. The guidelines for state agencies require them to ensure their information systems are adequate to properly account for, record, collect, and manage their receivables (OAM 03 03 00.PR.104).
- D.** Billings to other state agencies for legal services totaling \$493,774, or 29 percent of the department's total outstanding receivables for legal billings through December 31, 1995, were over 90 days old.
- E.** Uncollectible accounts receivable had not been written off since 1993. At that time, nine judgments receivable dating from the 1980's were written off. These receivables, which totaled \$956,598, were written off

without the approval of the Secretary of State, as required by *Oregon Revised Statutes* (ORS) 293.240. A letter requesting write-off approval from the Secretary of State, was prepared but never sent. Currently the four largest judgments, totaling \$950,979, are no longer enforceable under ORS 18.360 because their judgment entry dates are more than 10 years old.

RECOMMENDATIONS

We recommend that the department:

- Promptly record all receivables not yet recorded in the accounting records.
- Periodically analyze receivables to determine uncollectible amounts that should be written off. Procedures for writing off receivables should include obtaining approval of the Secretary of State in compliance with ORS 293.240.
- Establish and implement written procedures for debt collection. These procedures should include setting priorities for collection efforts, sending collection letters at specified intervals, attempting phone contact a specified number of times, and criteria for assigning accounts receivable to the collection section of the Department of Revenue.
- Require the accounting staff to report the results of their monitoring of receivables to the Business Manager. The Business Manager should ensure that action is taken to collect or write off receivables, as appropriate.
- Contact the Department of Administrative Services to determine how the new statewide accounting system can best be used to meet the department's collection needs.

MONITORING OTHER AGENCY RECEIVABLES

The Salem branch of the Credit and Bankruptcy unit collects delinquent accounts receivable on behalf of other

state agencies. These collections usually involve cases where litigation, assistance in bankruptcy or post-judgment assistance of counsel is necessary. Legal counsel, when necessary, appear in bankruptcy courts to proceed against collateral and to determine the dischargeability of debts. This is often needed to protect the future collectibility of all or part of a debt owed to the state.

The unit provides legal assistance to agencies to secure a judgment. After a judgment is secured, the debt may be returned to the agency for collection. Sometimes the agency opts to have the unit pursue collection instead. Post-judgment assistance is also provided to agencies to collect money owed to the state.

Generally, receivables collected by the unit are post-judgment receivables. For example, the department assists the Oregon State Scholarship Commission by obtaining judgments on defaulted student loans to garnish wages. After the unit obtains judgments, the commission assigns the student loan receivables to it for collection.

The Credit and Bankruptcy unit maintains receivable information at the individual case level; it does not maintain a summary of all receivable balances being collected. Using these individual records, we estimate the total receivable balance at approximately \$13.9 million on February 12, 1996. Three of the four debtors in our testing who were on payment plans had not received late payment notices, as specified by the required guidelines for state agencies (OAM 03 03 00.PR.108d and PR.108e).

- A. The unit does not maintain a summary record of post-judgment receivables or an aging analysis of amounts due. The unit records debtor information on two different computer systems. Amounts due are recorded on a personal computer using spreadsheet software. The department's case management system produces a Case Docket Report indicating when payments are due. This report is the primary monitoring tool; however, it does not show the balance owed.

Reconciliations of the two systems are not performed to ensure that both systems contain current information. Seven of the twenty-eight cases we tested were closed and removed from the case management system, but

still shown as active on the individual payment records maintained on the personal computer. Current receivable information, including a summary of amounts due and aging reports, is essential to provide management with useful information for directing and measuring collection efforts.

- B.** During our testing, we noted that overall collection efforts appeared timely, except for debtors on payment plans. For three of the four debtors in our sample on payment plans, late payment notices had not been sent even though payments were more than six months delinquent. One debtor sent a letter in January 1995, explaining why he was unable to pay. The unit could not provide us with documentation showing that any action was taken after the letter was received.

RECOMMENDATIONS

We recommend that the department:

- Review all files for debtors currently on payment plans and immediately send late payment notices to any debtors who are delinquent in their payments.
- Establish and implement procedures outlining a structured collection process to follow, using the Oregon Accounting Manual as a guide. Develop specific procedures for debtors on payment plans. These procedures should include setting priorities for collection efforts, sending late payment notices and collection letters at specified intervals, and attempting phone contact a specified number of times.
- Procure or develop an integrated computer program that can produce a summary record of post-judgment receivables, as well as an aging report of those receivables. An integrated system would allow regular reconciliation of individual payment records to the summary record.
- Require regular management review of accounts receivable to determine adequacy of collection efforts and collectibility. Require the Civil Enforcement Division to notify the Administrative Services section periodically of its monitoring and collection efforts for judgments and assurances of voluntary compliance.

**REPORTING AND FEE
COLLECTION FOR
CHARITIES**

The Charitable Trust and Solicitation unit is responsible for enforcing laws related to charitable and other nonprofit organizations. It also licenses and regulates bingo and raffle operations. The unit is supported by annual fees paid in conjunction with licensing and filings of various financial reports.

Oregon Revised Statutes (ORS) 128.670 requires charitable organizations to file annual reports no later than four months and 15 days following the close of their fiscal year. The ORS further requires a fee, which is based in part on income and receipts for the time covered by the report and in part on the organization's fund balance. The fee based on income and receipts ranges from a low of \$10 to a high of \$200. A minimum \$10 annual fee is to be collected from all charitable organizations with gross receipts of less than \$25,000. The fee based on fund balance is one-hundredth of one percent of the fund balance; it is not charged if the fund balance is less than \$50,000 or more than \$10 million.

The unit is two years behind in monitoring charitable organizations for report filing delinquencies. The unit also has waived the \$10 minimum fee for all charitable organizations with gross receipts of less than \$25,000 and total assets of less than \$50,000. This appears to be a violation of ORS 128.670. These waivers also cause a loss of revenue to the state.

A. A review of delinquent report filing has not been performed since 1992. Calendar year reports for 1993 and 1994 had not been reviewed at the time of our audit.¹ Using the unit's records, we were unable to estimate lost potential income because of delinquent filings. However, we were able to estimate the total number of delinquent filings based on historical information. Statistics from prior years suggest that delinquent reports ranged from 1,200 to 2,000 for the 1993 reporting period and from 1,300 to 2,150 for the 1994 reporting period. Some delinquent filings are for small charitable organizations that were not required to

¹ Reports for 1995 were not due until April 15, 1996, and therefore were not tested during our audit.

pay filing fees. The unit's staff does not know how many of the delinquent organizations are considered exempt and how many owe filing fees.

Unit staff attributes its inability to review delinquent reports to an outdated computer system that has recently been replaced. When information from the old system was downloaded to the new system, numerous errors occurred. Two temporary employees have been hired to manually update information on the new system. Unit management stated that by August 1996 the new system would have accurate information, and staff would be able to efficiently monitor reports filed by charitable organizations.

- B.** The Charitable Trust and Solicitation unit waives filing fees for non-profit organizations with gross receipts of less than \$25,000 and total assets of less than \$50,000. Under ORS 128.670, the minimum fee established for filing is \$10. The statute gives the Attorney General authority to suspend the filing of reports for “a particular charitable trust or relationship for a reasonable, specifically designated time....” (ORS 128.670 (3)) It does not appear to give the Attorney General the authority to suspend the filing of reports permanently for an entire class of charitable organizations. A former unit manager interpreted this statute as permitting waiver of the reporting requirement for all charitable organizations falling below the limits stated above. Although qualifying charitable organizations are required to file an annual form, unit management does not consider the form to be a report; therefore, the unit does not collect the \$10 minimum fee.

Using historical information, we estimate the decision not to collect these report filing fees has cost the State approximately \$101,000 in lost revenue for calendar years 1990 through 1994.

RECOMMENDATIONS

We recommend that the department:

- Promptly determine report filing delinquencies for prior years and pursue overdue reports and filing fees.

- Obtain an independent legal opinion on the propriety of waiving the reporting and fee requirements for all small charitable organizations. If the opinion does not support the unit's position on suspending reporting and fee requirements, we recommend the unit require reports and fees for all small charitable organizations until such time as the law is amended.

CAUSES

With the exception of billings to state agencies, collection and management of accounts receivable have been given a relatively low priority by management. The accounting section does not have written policies and procedures for recording, monitoring, collecting and writing off accounts receivable. It also lacks the summary accounting information and aging analyses needed to manage post-judgment receivables effectively.

The Business Services Manager was aware of problems with post-judgment receivables yet did not monitor their recording or collection. No effort appears to have been made to ensure that all receivables were recorded or uncollectible receivables were written off. The Civil Enforcement Division does not provide Administrative Services with sufficient information for effective monitoring. Without better communication between the Civil Enforcement Division and Administrative Services, the department's accounting records will not be accurate and receivables will not be properly controlled.

CONCLUSION:

Increased management attention is needed to improve the department's monitoring and collection of accounts receivable. All receivables identified by the department must be recorded in its accounting records. These records should be regularly reviewed by management to determine the effectiveness of collection procedures as well as the collectibility of individual receivables. This review would be aided by the use of PC-based software to summarize receivable amounts and produce aging reports. Written policies and procedures for recording, monitoring, collecting and writing off accounts receivable should be developed and implemented throughout the department. These have the potential to increase the timeliness of

collections and would be especially helpful for handling post-judgment receivables.

The Charitable Trust and Solicitation unit can increase its revenue by more than \$20,000 annually by collecting minimum fees from all charitable organizations as required by ORS 128.670. Unit staff already accounts for form filings from qualifying charitable organizations; the additional time needed to record and deposit fees for them would be minimal.

CHAPTER III: OTHER MATTERS

During the course of the audit, we identified other matters that warrant management's attention. Specifically, the department needs to strengthen controls over the payment of invoices and timeliness of billings for legal services provided to client agencies.

PAYMENT OF INVOICES

Good business practice requires that controls be in place to ensure that payments are reviewed, properly authorized, and accurate before payment and to prevent duplicate payments. The department needs to strengthen its controls as follows.

- A. The department's supervisory staff do not approve individual vouchers. Instead blanket approvals for groups of vouchers are made. We examined five vouchers for payments totaling approximately \$10,000 and found that none had been individually approved. Evidence of approval at the individual voucher level provides the department with increased assurance that the vouchers are the same as those reviewed and approved for payment.
- B. Department staff does not cancel paid invoices. Cancellation of invoices reduces the risk of paying an invoice twice. The required guidelines for state agencies include cancellation of invoices. (OAM 03 01 00.PR 130e).

RECOMMENDATIONS

We recommend that the department:

- Require supervisory staff to individually sign vouchers over a designated dollar amount to ensure that supporting documentation and voucher are examined, compared, and approved.
- Cancel paid invoices.

TIMELINESS OF BILLINGS FOR LEGAL SERVICES

The department bills its time to client agencies for legal services, much as a private law firm does. However, the department is sometimes slow in billing amounts due. Delays in billing cause delays in collections and thus have a negative impact on the department's cash flow. Timely billing is one of the required guidelines for state agencies, whether the receivables are due from private entities, the federal government, localities, or state agencies (OAM 03 03 00.PR.104a). Strengthening time reporting procedures would improve the timeliness of the department's billing and collection for legal services.

- A.** A Missing Time Analysis report for the period ending November 30, 1995, printed after November invoices were mailed to client agencies, shows over 3,440 hours with an approximate dollar value of \$240,000 had not been reported at the time bills to agencies were distributed. Some of the missing hours may have been for non-billable activities; however, a significant portion of this \$240,000 represents hours that should have been billed to state agencies for services. As a result, the department loses cash flow that could have been available to meet current expenses. Furthermore, timely billings to client agencies assist agencies in planning their own cash flow requirements.
- B.** The department's automated time accounting system has the ability to update time information daily, and current department procedures require attorneys to record their time daily. According to department officials, however, most attorneys initially record their time in a manual log rather than on the computer. Department procedures do not require legal staff to input their time into the automated time accounting system on a daily or weekly basis. Daily input by computer, rather than manual recordkeeping on a daily basis, which is only input monthly, would improve both the accuracy and timeliness of time reporting.
- C.** Although the department has written time reporting procedures for its divisions, the Administrative

Services section lacks written procedures to monitor time reporting by attorneys and legal staff. Procedures should specify the steps Administrative Services staff should perform, including the level of management that they should notify of exceptions. Procedures should also include expectations and accountability for time reporting, such as a daily or weekly requirement for input of time records by computer and the effect of untimely reporting of hours on an employee's performance evaluation.

Administrative Services, which has limited resources, is expending significant effort trying to capture missing hours. Holding attorneys and legal staff more accountable for prompt computer input of time records could increase Administrative Services staff time available to meet other department objectives.

RECOMMENDATIONS

To improve the timeliness of its billings, we **recommend** that the department:

- Discuss the effect of current time accounting procedures on cash flow with department managers.
- Develop department standards for computer input of time records that more closely resemble professional practice in the private sector, such as daily input of employee time data.
- Develop and implement procedures for monitoring employee time reporting which establish expectations and accountability for reporting hours timely.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Department of Justice's management, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Department of Justice during the course of our audit were very commendable and sincerely appreciated.

AUDIT TEAM

Beth Taylor, CIA, Audit Administrator
Sandra Horst, CPA
Anne Lawrence
Tomas Flores

AGENCY'S RESPONSE TO THE AUDIT REPORT



DEPARTMENT OF JUSTICE

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February 3, 1997

Don Waggoner, CPA State Auditor
Secretary of State
Audits Division
255 Capitol Street N.E.
Salem, Oregon 97310

Dear Mr. Waggoner:

Thank you for the opportunity to provide a response to the Audit Division's Special Review of the Department of Justice. This review provides our agency with several important observations and many effective recommendations that will strengthen our internal controls and improve our operations in the agency.

The Department wishes to thank the members of the Audit Team and acknowledge their efforts in this review. We found the members of the audit team to be both professional and knowledgeable. We especially appreciate the opportunities we had to work through items as they surfaced. Because the audit team solicited agency input and tried to understand agency concerns and problems, many solutions were devised together and have already been implemented.

While the audit did reveal some weaknesses in internal controls and identified other areas where improvements could be made, the review did not uncover any instances of misappropriation, loss or theft. The Department of Justice does understand the need to limit risk exposures. We will continue to examine our systems to ensure that risks are identified and controlled.

There are several factors that contribute to the causes of items identified in the review. It is true that the Department has not made internal controls a priority. This is due in part to the fact that the agency has never suffered a loss. It is also due to the agency's inability to devote resources to this area and its need to prioritize the agency's mission operation over internal controls.

The review points out that the agency eliminated the controller position three years ago and the audit team believes that to be a factor contributing to weaknesses in internal control. The agency did downsize, mostly based on the expectation that the Support Enforcement Division would transfer to AFS. Elimination of the controller position has saved the agency over \$216,000.

Judgment receivables have been a problem in the agency for at least the last ten years. The agency was aware of the problems and brought them to the attention of the audit team in the introductory conference. The agency has made improvements in this area and most of the judgments now on the agency accounting records, are not collectable. Nevertheless, the agency will be implementing a project to bring all of the information current, recorded and collections attempted, so that uncollectible receivables can be correctly written off.

Our agency will continue to review and evaluate all of our internal controls. We will strive to improve our timeliness on accounting transactions, reconciliations, and the monitoring of accounts receivables. These improvements are subject to other agency priorities. In this environment, it is very difficult to commit more resources to administrative functions. We will attempt to obtain additional resources as agency operating circumstances allow.

Finally, it has been fourteen years since the Department of Justice has had an extensive review from the Audits Division. We would all agree that fourteen years is much too long between reviews. Our agency would recommend some type of extensive review at least every five years.

A response to the specific recommendations on a chapter and item basis is included as follows:

Chapter I

Recording of Cash Receipts

All of the recommendations made in the review have been implemented.

Timely Deposit and Safeguarding of Cash Receipts

Most of the recommendations made in the review have been implemented. The recommendation to deposit checks received on behalf of other agencies into the appropriate account is a relatively new recommendation. We expect that it is a workable solution and will be adopted. Assuming that armored carrier transport is cost effective, that recommendation will also be adopted.

Don Waggoner
February 3, 1997
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Need for Segregation of Duties

All recommendations have been implemented. The agency has discontinued use of the check signing machine. Checks over \$25,000 now require authorization signatures.

Controls Over Safe Contents

All of the recommendations made have been implemented. The Crime Victims' suspense account has been closed. The check stock will be destroyed using the correct procedures.

Need to Monitor Client Trust Account

All of the recommendations made will be adopted. A project is just beginning to bring these records current.

Use of Cash Reconciliations as a Control

All but one of the recommendations made will be adopted. Unfortunately, limited resources prevent all reconciliations from being reviewed by management personnel. The accounting coordinator will continue to review these.

Chapter II

Recording and Monitoring Accounts Receivable

All of the recommendations made in the review will be adopted.

Monitoring Other Agency Recoverables

All of the recommendations will be adopted. The agency will examine the feasibility of developing a computer program to assist in this area.

Reporting Fee Collection For Charities

The first recommendation has already been implemented. The agency is re-examining the Attorney General's authority to suspend reporting and fee payment requirements.

Don Waggoner
February 3, 1997
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Chapter III

Payment of Invoices

Conversion to SFMS makes the first recommendation moot. The agency will re-examine the need to cancel invoices once paid.

Timeliness of Billings for Legal Services

The agency already employs the recommendations listed in the review. We will examine current procedures and ensure accountability is met.

We appreciate the constructive approach taken by you and your audit team during this process. The recommendation put forth in the review will improve agency internal controls and make improvement in other areas as well.

Sincerely,



DAVID SCHUMAN
Deputy Attorney General

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