



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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Mr. Steve Newsom, Director
Department of Facilities Management
11476 C Avenue
Auburn, CA 95603

Re: Transfer of Accountability of Assets Follow-Up Review

Dear Mr. Newsom:

The Internal Audit Division of the Auditor-Controller's Office (ACO) performed a follow-up review to our prior Transfer of Accountability of Assets Review for the Department of Facilities Management (Department). Due to County re-organization, the Department of Public Works and Facilities (DPWF) was separated into two distinct departments. The objective of our procedures was to determine how the recommendations from our previous review were implemented. Our procedures included inquiries of the Department personnel along with reviews of supporting documentation relating to our recommendations in our previous report.

The following is a summary of our observations and recommendations along with the Department's responses from the previous report dated June 18, 2019, which is then followed by the status of the Department's implementation of our recommendations.

Accounts Receivables

During our review of the Department's accounts receivable, we noted the following:

1. Accounts receivable subsidiary ledgers, reconciliations and aging analysis were not up to date, as well as the accounts receivable balance in Workday, with some subsidiary ledgers, reconciliations and aging analyses behind as much as six to nine months.
2. Delinquent accounts receivable aged greater than 180 days have not been submitted to Revenue Services for collections as required by the Accounts Receivable and Delinquent or Uncollectible Accounts section of the Accounting Policies and Procedures Manual (A/R Policy).

3. Numerous delinquent accounts with very low dollar values, which are too small to justify the cost of collection, have not been submitted to the Auditor-Controller's Office for discharge from accountability as required by the A/R Policy.
4. The Department does not have a process for ensuring that accounts receivable is recorded in the general ledger (GL) at net realizable value (NRV) as required by the A/R Policy.

We recommend the Department:

1. Continue to update the accounts receivable subsidiary ledger to include all activity and complete all accounts receivable reconciliations and aged receivable analysis for fiscal year to date. We also recommend the Department update the accounts receivable ledger account in Workday and ensure the balance is accurately recorded.
2. Review accounts receivable aging on a monthly basis to determine whether accounts have passed the 180 day delinquent period and need to be submitted to Revenue Services for collections, as required by the A/R Policy.
3. Request write-off of accounts receivable using the 'Discharge of Accountability for Delinquent Accounts Request Form', as required by the A/R Policy. Once the aging is reviewed and the request for write-off is approved, the Auditor-Controller's Office will notify the Department of the approval to write-off the uncollectible accounts.
4. Develop a process for estimating an allowance for doubtful accounts and recording the gross receivable amount and an offsetting allowance for doubtful accounts in the GL, during year-end closing process, in order to have their accounts receivable recorded at NRV as required by the A/R Policy.

Department's Response:

Facilities Management began to review Accounts Receivable statuses in March 2019 after the hiring of an Administrative Fiscal Operations Manager who immediately noticed revenues were not being realized in Workday Financial ledgers. When the split of DPWF occurred, two accounting employees were familiar with Business Works, the external A/R software in use to post and reconcile A/R receivables. Those employees included an Accountant who was and continues to be on leave, and an Account Clerk that was reassigned to DPW. Facilities Management promptly assigned an extra help Senior Accountant to journal the July 2018 through December 2018 revenues to Workday Financial ledgers for what had been processed to date, which was six to nine months behind. Additionally, Workday Customer Accounts was explored and decided to be the better solution for managing the departments A/R versus Business Works. In April 2019, plans were underway to transition Facilities Management A/R into Workday effective July 2019. Facilities Management hired a Senior Accountant familiar with A/R who was assigned the responsibility of coordinating with the Workday team to upload customers into Workday, and

streamline the A/R processes for Invoicing, Aging, Reconciliation, and estimating doubtful accounts practices. As of June 14, 2019 we have achieved the following:

- Reviewed the Accounts Receivable guidelines in the Accounting Policies and Procedures Manual and drafted an outline of the procedure for referring delinquent accounts to the County's Revenue Services for collection, requesting write-offs of delinquent accounts, and estimating an allowance for doubtful accounts with proper recording of net realized value;*
- Discussed the Business Works Accounts Receivable processes with the DPW Account Clerk still responsible for catching up the A/R transactions through June 30, 2019 to understand why the backlog still remains;*
- Discussed the backlog with DPW's Admin & Fiscal Operations Manager to offer strategies for catching up the Business Works backlog;*
- Discussed Workday Customer Account functionalities at length with Workday Team to draft a new procedure for our A/R in Workday;*
- Readied our Facilities Management A/R accounts for upload into Workday Customer Accounts with an EIB file;*

Facilities Management is ready to use Workday Customer Accounts for its A/R transactions beginning in FY 2019-20. We have been unable to make much headway to address the backlog as the DPW Account Clerk assigned to Business Works is also managing multiple tasks that DPW has prioritized as more important and Facilities A/R. We have attempted to have our own staff observe the Account Clerk in order to learn Business Works and take over the responsibility; however, the past practices currently being used for Business Works are cumbersome, over-complicated and not quickly learned. DPW has advised they cannot afford the time it would take the Account Clerk to train one of our staff. Our department is at a disadvantage as it relates to FY 2018-19 A/R and at the mercy of when the DPW Account Clerk can catch up. Progress has been made to catch up some of the A/R through March 2019 resulting in a three to six month backlog versus six to nine; however, this is still not acceptable. We continue to address the matter with DPW and plan to elevate the topic to Ken Grehm, Director of DPW, for further assistance with this task assignment. Another option is the future return of our Facilities Accountant from leave who would be assigned the task of catching up Business Works A/R.

Status for Recommendation #1 – Implemented During Follow-Up Review

The Department's adjusted balance for fiscal year 2018-19 reconciled between BusinessWorks (subsidiary ledger accounts receivable system) and Workday. Also, the Department has continued to update the accounts receivable ledger account in Workday and has recorded all activities for fiscal year to date. In addition, the Department performed an in-depth review of its receivables for accounts that are 180 days or greater as of December 31, 2019. Currently,

the Department no longer performs accounts receivable reconciliation as all accounting records are maintained in Workday and a report can be used to obtain specific details.

Status for Recommendation #2 – Implemented During Follow-Up Review

The Department recently developed a process (Monthly Aging Review) to review aged receivables on a monthly basis to determine whether accounts that have passed the 180 day delinquent period. The detail of the review process is described in the Department's January 2020–Draft Accounts Receivable Procedures Manual. During fiscal year 2019-20, the Department has been reviewing their accounts receivable continuously. In December of 2019, the Department performed an in-depth aging analysis and submitted aged receivables that have passed the 180 day delinquent period to Revenue Services for collections on January 23, 2020. Currently, the Department is conducting the Monthly Aging Review for January 2020.

Status for Recommendation #3 – Implemented During Follow-Up Review

The Department recently developed a process (Collectability Analysis and Write-Off Process) to assess aged receivables on a yearly basis (prior to the close of fiscal year end) for collectability. The detail of the review process is described in the Department's January 2020–Draft Accounts Receivable Procedures Manual. Also, the Department performed an in-depth review of its delinquent accounts in December 2019 and submitted the write-off of accounts receivable request to the ACO on January 24, 2020.

Status for Recommendation #4 – Implemented During Follow-Up Review

The Department recently developed a process (Allowance for Doubtful Accounts – Estimation Procedures) for estimating an allowance for doubtful accounts during year-end closing. At that time, the Department will analyze historical trends to determine an estimate to be used as an allowance for doubtful accounts and report the receivables at net realizable value. The detail of the process is described in the Department's January 2020–Draft Accounts Receivable Procedures Manual.

Notes Receivable

During our review, we noted the Department had a \$30,000 note receivable recorded in the GL since April 22, 2016. After further review, we noted the balance for this receivable was forgiven by the Placer County Board of Supervisors at their December 18, 2018 meeting, but the Department did not prepare a journal to remove the balance from the general ledger.

We recommend the Department prepare a journal to remove the forgiven \$30,000 note receivable balance from the general ledger in Workday.

Department Response:

Facilities Management began to review department general ledger reports in April 2019 after the hiring of an Administrative Fiscal Operations Manager and Senior Accountant. The immediate focus was on the Capital Fund. On June 5, 2019 this audit brought to our attention this \$30,000 note receivable located in the General Fund. On June 5, 2019 we identified the note receivable was forgiven, and on June 6, 2019 we initiated a journal to remove the note receivable from the general ledger. As of June 14, 2019 the journal is currently awaiting Auditor's Office approval.

Status – Implemented

The Department submitted the required journal in Workday to remove the forgiven \$30,000 notes receivable balance from the general ledger.

Signature Card Authorizations

During our review of signature authorization forms, we noted the Department had not submitted updated signature authorization forms in a timely manner subsequent to the County re-organization separating DPWF into two distinct departments and change in department head, effective February 18, 2019. During the course of the review, the Department submitted updated "Payroll Pickup" and "Payroll Adjustments" signature authorization forms, although, an updated "Capital Asset Transfers" authorization form has not been received.

We recommend the Department update all necessary signature authorization forms whenever there are changes to authorized signers and submit the forms to the Auditor-Controller's Office in a timely manner.

Department Response:

Upon becoming aware of the signature card requirement, Facilities Management circulated new signature authorization forms, updating them twice as new hires were added. Our department was not aware of the Capital Asset Transfers authorization form and on June 13, 2019 requested the Auditor's Office provide the form for our completion, which will be submitted to the Auditor promptly.

Status – Implemented During Follow-Up Review

The Department did not update the "Payroll Pickup" and "Payroll Adjustments" signature authorization cards/forms and submit them to the ACO in a timely manner to reflect changes to the authorized signers. The changes are provided below.

1. **"Payroll Pickup" Signature Authorization Card:** The signature authorization card on file with the ACO is dated May 7, 2019 and it included the names of two employees from Department of Public Works (DPW) as authorized signers.

2. **"Payroll Adjustments" Signature Authorization Form:** The signature authorization form on file with the ACO is dated May 28, 2019 and it included the name of a former employee who left the County in June 2019. Also, the Department submitted the May 28, 2019 signature form without the signature of one of the authorized signers due to a leave of absence. However, the authorized signer returned in August 2019 and the Department did not submit an updated signature form.

However, during the course of the review, the Department submitted new "Payroll Pickup" and "Payroll Adjustments" signature authorization cards/forms on December 23, 2019 to the ACO with updated signatures reflecting changes to authorized signers. The updates are provided below.

1. **Payroll Pickup" Signature Authorization Card:** Removed the signatures of two DPW employees who are mentioned above and three other employees from the Department. Also, added a new employee to the signature authorization card.
2. **"Payroll Adjustments" Signature Authorization Form:** Removed the signature of the former County employee that is mentioned above. Also, updated the signature of the employee that had returned from leave (mentioned above) and added a new employee to the signature authorization form.

The Department's responses to our recommendations identified in our original report dated June 18, 2019 are included above. We did not audit the responses and accordingly, we do not express an opinion on them.

We appreciate the courtesy and cooperation of the Department's staff throughout the course of this review.

Respectfully,



Nicole C. Howard, CPA
Assistant Auditor-Controller

cc: Gretchen Nedved, Administrative and Fiscal Operations Manager
Placer County Audit Committee