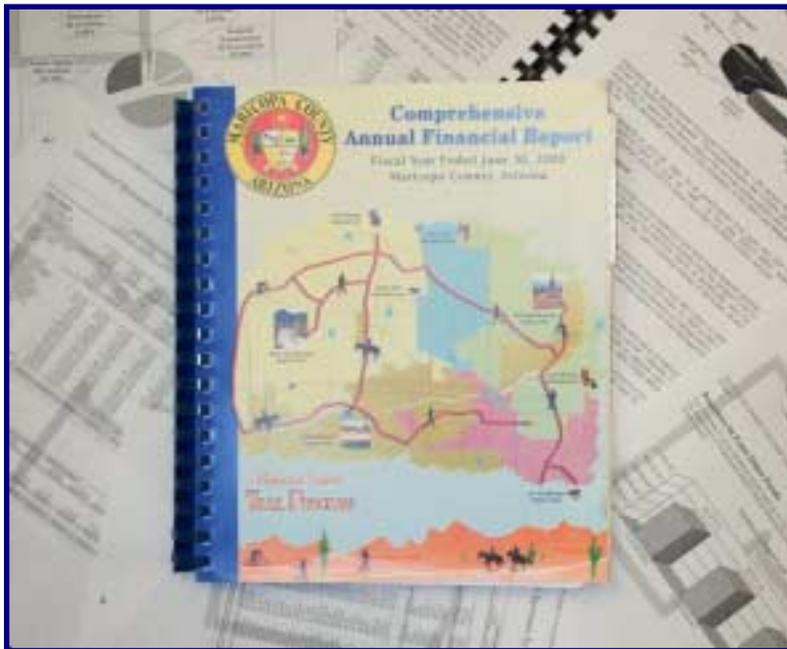




# Internal Audit Report

Accounts Receivable  
August 2001



## **Audit Team Members**

**Joe Seratte, Audit Manager**

**Kimmie Wong, Associate Auditor**

**Christina Black, Associate Auditor**

**Lisa lampaglia, Staff Auditor**

# Internal Audit Department

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September 6, 2001

Janice K. Brewer, Chairman, Board of Supervisors  
Fulton Brock, Supervisor, District I  
Don Stapley, Supervisor, District II  
Andrew Kunasek, Supervisor, District III  
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2000-2001 review of Countywide Accounts Receivable. The audit was performed in accordance with the annual audit plan that was approved by the Board of Supervisors.

We reviewed the County's receivables listed in the June 30, 2000 Comprehensive Annual Financial Report. No significant risks to the reported balances were identified during our audit work. Accordingly, we have attached a one page summary memo for your review.

If you have questions, or wish to discuss items presented in the memo, please contact Joe Seratte at 506-6092.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate  
County Auditor



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## **Executive Summary**

### **Low Risk Receivables (Page 6)**

Our examination of receivable balances contained in the June 30, 2000 Consolidated Annual Financial Report (CAFR) shows that the receivables are low risk. The receivable balances represent revenues not received as of year-end. The CAFR balances are conservatively presented and their collectibility is reasonably assured.

# Introduction

## Audit Approach

The objective of this limited scope engagement was to establish an overview of the County's Accounts Receivable, as well as, identify risks associated with each component of the County's June 30<sup>th</sup> receivable balance. We used the County's fiscal year (FY) 2000 Consolidated Annual Financial Report (CAFR) as the basis for our review.

We developed summary information regarding the receivables, by category, and reviewed a sample of individual receivables. Using a threshold of \$1 million, we reviewed 21 receivables that comprise 96 percent of the total dollars reported in the June 30, 2000 CAFR. The receivables represent revenues that the County had not received by the end of the fiscal year. Most receivables are created through a year-end accrual or accounting entry executed by the Department of Finance (DOF) or operational department.

The risk inherent to balance sheet receivables is overstatement. Receivables that are overstated mean the County has booked more revenue than actually earned. Our audit focus was to validate the CAFR's receivable balances through a review of backup documentation. Whenever possible we confirmed the actual receipt of cash in subsequent periods by verifying specific cash receipt documents.

## Scope and Methodology

Our audit objectives were to:

- Identify and document the overall risks present in the County's "portfolio" of receivables.
- Identify and document specific risks in the County's major receivables processes
- Identify unrecorded receivables to ensure County assets are adequately protected through the use of effective collection efforts

This audit was performed in accordance with Government Auditing Standards.

## Background

As of June 30, 2000 the Maricopa County CAFR listed 87 receivables having a total balance of \$205,825,000. The receivables range in size from a \$623 accrued interest receivable for the Major League Stadium Capital Projects Fund to the \$74,150,888 General Fund amount Due from Other Governments.

The wide range of values in County receivables skews the distribution, on a dollar basis, to a small number of very large receivables. The following table shows Maricopa County receivables stratified by dollar value. Most County receivable dollars are found in a small number of receivables having individual large balances.

### Maricopa County Receivable Balances Stratification Table

Dollar Range	Receivables within Range	Summed Dollars	% of Total
>\$10,000,000	6	\$ 163,025,114	78.9%
\$1,000,000 - \$10,000,000	15	\$ 36,104,087	17.5%
\$100,000 - \$1,000,000	14	\$ 6,509,004	3.1%
<\$100,000	51	\$ 1,010,242	0.5%
<b>Totals</b>	86	\$ 206,648,447	100.0%

The top six receivables total over \$163 million and make up 79 percent of the total. The second tier of 15 receivables, with balances between \$1 million and \$10 million dollars, comprise another \$36 million (17.5%) of the total.

Together, the 21 largest receivables make up approximately 97 percent of the County's total receivables at June 30, 2000. The top six receivables are shown in the table on the following page.

## Maricopa County Receivables Highest Balances

FUND TYPE	DEPT.	RECEIVABLE TYPE	AMOUNT
General	N/A	Due from Other Governments	\$ 74,150,888
Enterprise	MIHS	Accounts Receivable	\$ 26,065,161
Special Revenue	Sheriff – Jail Operations	Due from Other Governments	\$ 19,891,624
Special Revenue	MCDOT	Due from Other Governments	\$ 17,934,875
Investment Trust	Treasurer	Accrued Interest	\$ 14,093,578
Special Revenue	Adult Probation Grants	Due from Other Governments	\$ 10,888,988

### RECEIVABLE RISK - RECEIVABLE SOURCE

The risk inherent in County receivables is related to the receivables' source, which generally are two types; those representing a large number of small balances and those representing a small number of very large balances.

Examples of the first type of receivable are:

- Taxes due (individual property)
- Sheriff's jail operations (per diem, per prisoner)
- MIHS accounts receivables.

The second type of receivable is made up of a small number of very large receivables, which are generally due to the County from other governmental units. Examples of this type of receivable are:

- Sales tax not yet remitted by the State
- State/federal grants receivable
- Amounts owed to the County by local cities for services performed, such as road maintenance and animal control.

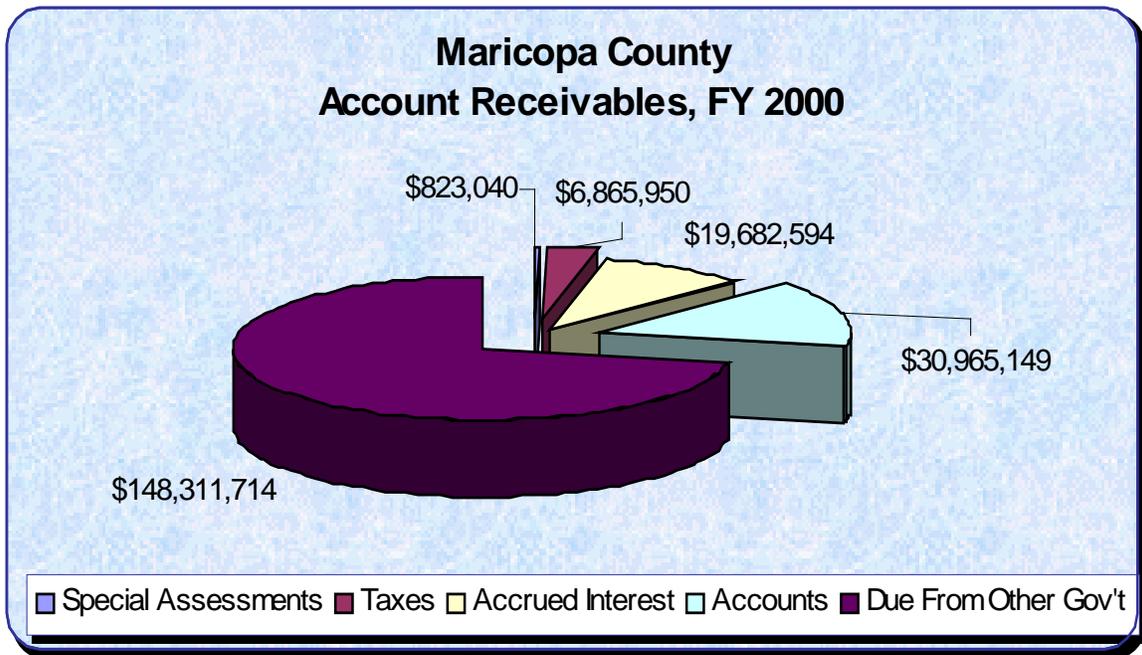
Receivables classified as Accrued Interest can fall into either type, depending on the source of the earned interest.

## RECEIVABLE CATEGORIES

The Maricopa County CAFR classifies receivables are into five categories. They are:

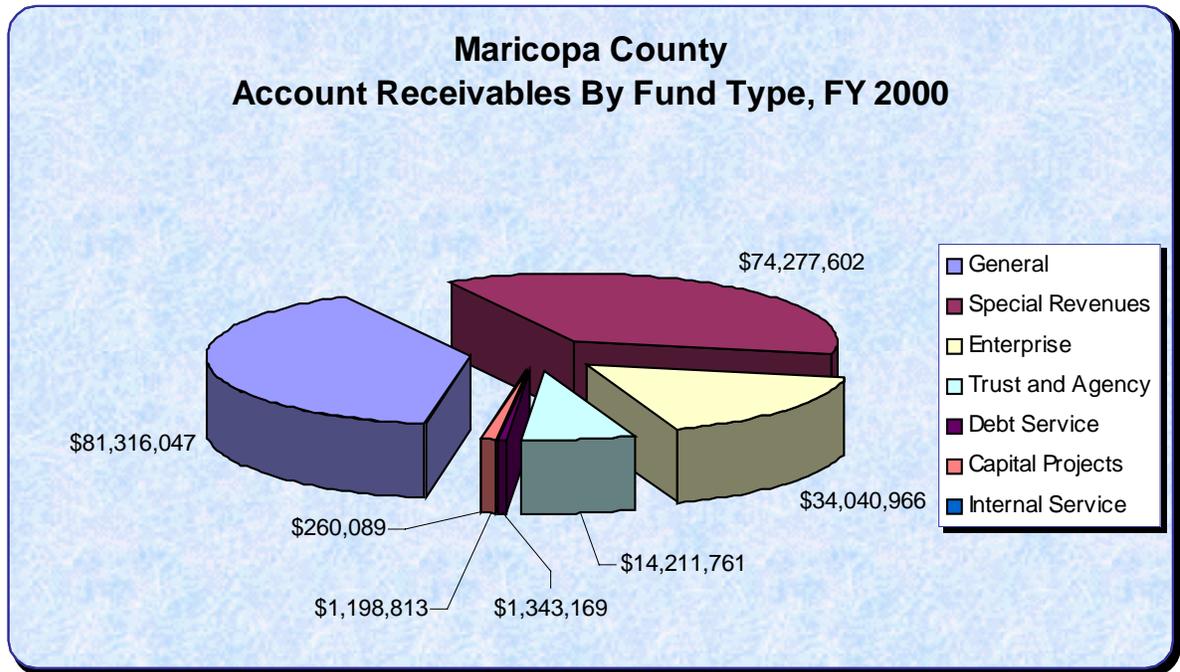
- Accounts Receivable
- Taxes Receivable
- Accrued Interest, and
- Due from Other Governments
- Special Assessments

Amounts due from other governments are by far the largest balances, as shown by the graph below, and generally present the least collection risk to the County.



## RECEIVABLES BY FUND TYPE

Receivables compiled by Fund Type show that the majority are split fairly equally between the General Fund and Special Revenue Funds, containing \$81,316,047 and \$74,277,602, respectively. The graph below shows the distribution of CAFR receivables by Fund Type as of June 30, 2000. Enterprise receivables are comprised mostly of MIHS patient Accounts Receivable.



Our findings concerning June 30, 2000 receivables are discussed on the following pages.

## **Issue      Low Risk Receivables**

### **Summary**

Our examination of receivable balances contained in the June 30, 2000 Consolidated Annual Financial Report (CAFR) shows that the receivables are low risk. The receivable balances represent revenues not received as of year-end. The CAFR balances are conservatively presented and their collectibility is reasonably assured.

### **Audit Testing**

Internal Audit reviewed the largest 21 CAFR receivable, whose combined value made up more than 96 percent of the dollar value of all receivables in the CAFR. We traced all receivables in the sample to reasonable supporting documentation. In addition, we confirmed the subsequent receipt of 55 percent of total CAFR receivables by validating Treasurer's Office receipt documents.

### **Nature of Receivables**

The majority of CAFR receivables represent amounts due Maricopa County at fiscal year-end by other governmental entities. These receivables include allocated sales tax due from the State and grant monies to from the State on a reimbursement basis. Because of their source, these receivables' collectibility is reasonably assured.

### **Allowance for Bad Debt**

Accounts receivable from the Maricopa Integrated Health System (MIHS) are largely made up of a large number of small receivables due from hospital patients. Because the source of the receivable, the receivables have a certain amount of inherent risk.

The risk of the MIHS receivable presented on the CAFR is reduced because of a large allowance for bad debt. The MIHS receivable listed on the CAFR has been reduced by a 57 percent reserve for bad debt. The receivable figure itself was taken from financial statements prepared by the Arizona Auditor General.

## **Conclusion**

The amounts reflected in the CAFR as receivables represent a low risk to the County. Future audit planning should reflect the low risk in future audit schedules.

## **Recommendation**

None, for information only.