

Accountants and Business Advisors

January 12, 2006

The Board of County Commissioners  
Multnomah County  
501 SE Hawthorne Blvd, 6<sup>th</sup> Floor  
Portland, Oregon 97214

Ladies and Gentlemen:

In connection with our audit of the financial statements of Multnomah County as of June 30, 2005, we noted certain matters that we believe you should consider. Our observations were formed as a by-product of our audit procedures, which did not include a comprehensive review for the purpose of submitting detailed recommendations. The matters discussed herein are those that we have noted as of November 3, 2005 and we have not updated our observations regarding these matters since that date.

### Health Department Receivables

During our audit of the Health Department's accounts receivable we noted a number of discrepancies in the audit workpapers and reconciliations provided for year-end accounts receivable. The Health Department's receivable workpaper supporting the general ledger balance (SAP) did not agree to the medical claims sub-system (EPIC) as of year-end. In addition, based on our detailed review of medical customer accounts receivable we noted instances where payments had been posted to the incorrect customer and posted to the EPIC system without a corresponding invoice. We noted the Health Department had not accrued for the Medicare settlement transactions pertaining to fiscal years 2003 through 2005. We also noted the department did not prepare a detailed analysis of the allowance for doubtful accounts and though the department does record monthly entries to the balance sheet account throughout the fiscal year, it does not appear that management has developed a documented methodology with supporting corroborative evidence on the allowance for doubtful accounts.

We recommend the County continue to review the EPIC medical claims receivable report and compare it to the County's general ledger system and further investigate discrepancies between the two systems. By performing a thorough review of the differences, management will be able to more easily identify if payments have been properly posted to customers and investigate any instances where invoices have not been recorded. Also documenting the process to calculate the allowance for doubtful accounts will give management a basis to work with and then provide for further review on an ongoing basis.

Another accounting discrepancy in the Health Department that came to our attention is the Department's designation and practice of accounting for the Federally Qualified Health Center (FQHC) transactions. Based on our inquiry with department management, it appears that the Health Department's FQHC transactions are recorded as revenue and receivables in the general ledger system twice. This practice occurs when certain provider claims are outstanding and the same claims have also been submitted to the State of Oregon under the FQHC process. There were a number of instances such as this at year-end. We

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recommend that management record the FQHC accruals net of other related invoices. This practice will allow management to more accurately evaluate the net realizable value of accounts receivable, and monitor future cash flows to the County. In addition at June 30, 2005 the Health Department had outstanding FQHC receivables related to the current and prior year fiscal years. As of October 2005 the Health Department had invoiced the State for an FQHC quarter ending September of 2003. The level of outstanding FQHC receivables and the aging of these receivables at year-end raises some doubt as to the collectibility and value of these FQHC transactions. We recommend management work closely with the State of Oregon and invoice outstanding quarters for FQHC receivables in order to report Department receivables on a current basis and improve the information available for estimating the net receivable amount. Lastly, we noted the practice for accounting and accruing for the FQHC quarterly revenues was inconsistent across County departments. Specifically, the Health Department, the Department of Community Justice, and the Department of County Human Services are accounting for the FQHC accruals using different methodologies. We recommend that the County develop a policy requiring the departments to account for the FQHC accrual transactions in a consistent manner.

**Management's Response:**

The Health Department has been diligently working on a monthly reconciliation between the EPIC medical claims receivables and the County's SAP system. Variances have been identified on this reconciliation but the discrepancies have not been completely resolved. As we continue to refine the reconciliation, noting areas where we can improve the process, we expect to reduce the overall difference from SAP to the EPIC sub-system. An on-going detailed review will prevent inaccurate journal entry postings and other errors in recording transactions to the general ledger. In addition management does recognize the need to have a well documented process outlining the procedures to estimate and record the allowance for doubtful accounts. As a result, the Department of County Management will be requesting the Board of County Commissioners to fund a position that will report to central finance and work with all County departments to develop certain procedures and reconciliations that could be implemented and would assist in estimating and reconciling this account on a regular basis. Additionally, the Health Department is in the process of identifying resources within Business Services to fund a position, whose primary responsibility would be to reconcile EPIC and other subsidiary ledgers to SAP. This capacity was lost some years ago and the Department recognizes the need to add back some senior level accounting expertise, familiar with medical accounting practice, to work with and complement the resources in the Department of County Management.

Regarding the Department's FQHC accrual transactions, given adequate resources in central finance we could work with the Department of Community Justice and the Department of Human Services in order to document an accepted practice of recording the FQHC transactions. A consistent method that has been documented and reviewed by all Departments will be a strong starting point for further review and refining of the process to ensure transactions have been recorded at the net realizable value. In addition, management is aware the general ledger includes two prior fiscal years of outstanding FQHC transactions. In our correspondence with the State of Oregon regarding invoices for FQHC quarters, the State indicated that not until subsequent to July 1, 2005 would they accept invoices. We are currently in the process of submitting additional invoices to the State in a new format per their request and expect that the change in the formatting will result in more timely payments.

### **Revenue and Other Accounts Receivables**

While performing audit procedures related to accounts receivable, we noted the amount of detail in customer receivables was quite voluminous. There are a number of entries that offset and net to zero. Specifically we noted most of these customers were used by the Health Department. We recommend that management implement a practice to clear out these entries to reduce the presence of old data in the general ledger and follow up on any unreconciled items in a timely fashion to ensure appropriate classification of assets and liabilities in the financial statements.

#### **Management's Response:**

We are in the process of implementing a plan to periodically review the detail in the accounts receivable listing, in order to reduce the number of outstanding items that net to zero. In addition, we will provide for in-depth review of accounts receivable at year-end in order to ensure only outstanding transactions are listed in the accounts at year-end.

### **Trust Accounts**

During our review of the County's trust accounts, it came to our attention that the Health department was incorrectly recording current liabilities and revenue into a trust account. This results in a misclassification of liabilities between current liabilities and trust accounts in the financial statements. Management should consider monitoring trust accounts more closely to ensure completeness and accuracy in reporting trust accounts and liabilities in the general ledger.

We also noted the Inmate Trust account in the Sheriff's Department was understated at June 30, 2005. Upon our inquiry management performed a detailed review of the reconciliation procedures back to January of 2004, and noted an unreconciled understatement of the trust account balance. Based on management's review, the trust account balance was adjusted to the reconciled balance in fiscal year 2006. Going forward central finance should more closely review the Inmate Trust account reconciliation and timely follow up on all unreconciled variances.

#### **Management's Response:**

The Health Department has been working closely with central finance regarding the reconciliation of the trust account. In fiscal year 2006 management is more closely monitoring certain trust accounts and correcting entries which have been posted in the general ledger in order to properly state trust balances and related accounts. In addition, we are working with other finance staff regarding the proper usage of a trust account and the nature of transactions posted to a trust account. With respect to the inmate trust account we have met with the Sheriff's Office finance staff and management to outline and document the procedures to reconcile, review and monitor the trust account on an on-going basis.

### Single Audit

During the course of performing the Single Audit (audit of federal funds), it came to our attention that there was not adequate documentation supporting inventories for the Immunization grant in the Health Department. In accordance with the compliance supplement for the Immunization Grant, the County is required to maintain documentation of physical inventories taken on a periodic basis. We found that the program coordinator did maintain an inventory subledger in an Excel® worksheet, but there was no documentation to support that physical inventories had been performed periodically. Management should ensure they have adequate documentation to support that they have adhered to the applicable compliance requirements for this grant, specifically related to documentation of periodic physical inventories.

Also during our Single Audit procedures we tested subrecipient monitoring for a grant in the Department of County Human Services Aging division, noting the County was unable to produce documentation of site visits that had occurred during the year. The County should consider retaining documentation of site visits of subrecipients to ensure evidence of subrecipient monitoring is available for review. In addition, we noted certain programs where there is not a consistent methodology for tracking subrecipient pass through funds. A general ledger account is used to track both pass through funds and contract payments, as well as other types of expenditures, making it difficult to identify the pass through funds for a subrecipient. The County should consider implementing a consistent method of separating, tracking and recording pass through expenditures related to subrecipients in the general ledger.

### **Management's Response:**

We realize, due to some turnover within the Health Department Immunization program some documentation verifying the physical inventories was omitted. The inventory procedures and documentation have resumed, and in addition we are working on cross training procedures in order to prevent instances such as this from occurring in the future.

Management is aware there is not a County-wide program devoted to performing the required subrecipient monitoring. However, central finance is working with Departments to train fiscal staff to properly use general ledger accounts that have been specifically set up to monitor and track subrecipient funds in the system. In addition, a fiscal compliance officer is being transferred to central finance and eventually will work with other Departments to develop and document procedures with respect to monitoring subrecipients. The Department of County Management has submitted a program offer for the fiscal year 2007 budget to fund an additional compliance officer in order to continue to evolve and expand and meet Federal and State requirements for central fiscal compliance and subrecipient monitoring.

### Liabilities

During the course of our audit procedures related to liabilities, it came to our attention that the County's State Mental Health Grant (SMHG) liability account maintained by the Department of County Human Services is not timely or accurately reconciled on a recurring basis. There was a large adjusting entry for the closed 99-01 biennium posted prior to year-end which indicated management was not timely in reviewing and adjusting the liability account. Also we were unable to reconcile the account balance to documentation received from the

State of Oregon evidencing the liability balance due to the State of Oregon for the 01-03 Biennium. Management should consider performing a detailed monthly review of all activity in the SMHG liability account, and reconcile the account balance on a timely basis to all documentation received from the State of Oregon. In addition this account should only reflect open bienniums that have yet to be settled with the State of Oregon. Any bienniums that have been reconciled and settled with the State should no longer carry a liability balance in the State Mental Health Grant account on the balance sheet.

**Management's Response:**

For the fiscal year 2006 management has changed the process by which the State Mental Health Grant liability account is reviewed. Further analytical procedures and review by management should ensure that transactions are properly recorded in the general ledger on a timely basis. The Department will implement procedures to verify that biennium documentation provided to the State agrees to the general ledger and any discrepancies have been investigated.

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Should you desire further information concerning these matters, we will be happy to meet with you at your convenience.

Very truly yours,

