

Internal Audit Report 15-06
Citywide Accounts Receivable
June 2016



CITYWIDE ACCOUNTS RECEIVABLE

City of Sioux Falls
Internal Audit Department
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INTERNAL AUDIT REPORT 15-06

INTRODUCTION

Like many cities, the City of Sioux Falls (City) is supported by a variety of revenues including sales and use tax, property taxes, licenses and permits, and other charges for City services. These revenues are collected in various ways, including cash collections at the point of service, remittances by the state or county, and invoiced billing for services, fines, or other charges for payment at a later date. This audit was not included in the 2015 Annual Audit plan as it was a special request of the City Council after the 2015 Plan had been approved. The Audit Committee reviewed and approved this request at their April 16, 2015 meeting.

BACKGROUND

More than \$30 million in accounts receivable were owed to the city as of December 31, 2015. Approximately 75% of this amount is from Government Activities such as taxes and Federal grant monies for Community Development. The City received \$276 million in revenues from governmental activities in 2015 and \$80 million from business-type activities. The City does not use a centralized system to record accounts receivable. Instead, departments maintain information individually due to the uniqueness of each service and system used to provide those services. Decentralizing the City's receivables ensures that the employees' closest to the transaction, with the most knowledge about the services being provided, and who have quick and easy access to the billing system will be the first point of customer contact. This allows the City to provide the best customer service, gather the best performance metrics, and make the best use of staff time. The following systems are in place to account for the City's various cash receipts and billing.

- CIS Infinity – Utility Billing
- EHS/Dentrex – Falls Community Health
- EnerGov – Planning, permitting, inspections, and licensing
- Horizon – Siouxland Library fees and fines
- Paradigm – Landfill tipping fees
- Rec Trac – Parks and Recreations fees
- T2 – Public Parking tickets and leased parking
- Tyler Munis – All other revenues and billing

Although the billing systems are decentralized the City's Finance department bears ultimate responsibility for ensuring that billing and collection efforts are carried out in an efficient and effective manner. The citywide Billing and Collection Policy was updated in 2015 to outline how City provided services would be billed and collected. The objective of the Policy is to ensure that billing and collection efforts are secure and efficient to improve the flow of revenue, allow

for more effective financial forecasting, improve cash management practices, and ensure that customers are treated fairly across departments and systems.

Finance staff regularly review billing and collection practices, provide training to individuals responsible for billing, review account setups for consistency, and review invoices and statements for clear and concise communication. They also perform monthly reconciliations, quarterly reviews of aging reports, and review delinquent customer accounts across all systems. If possible they will remove delinquent customers from City services until their accounts are brought current.

OBJECTIVES

The objectives of this audit were to:

1. Identify what types of revenues should be recognized as accounts receivable for the City.
2. Determine if receivables are accurately recorded.
3. Determine if delinquent accounts are being collected in accordance with procedures and internal controls over billing, collection, and write-off functions are properly designed and implemented.
4. Review previously identified delinquent accounts which have been placed on payment programs.

SCOPE AND METHODOLOGY

The scope of this audit included a review of accounting records, policies and procedures and internal controls over accounts receivable as they currently exist. Account receivable balances were reviewed as of December 31, 2015. Our audit work included:

- Interviews with City staff and management.
- Review of written policies and procedures, internal documents reports and annual financial statements.
- Review of previous audit reports and prior audit recommendations.
- Review of internal controls.
- Review of payment agreements.

RESULTS

Revenues that should be recognized as accounts receivable

We identified the Revenues reported as Charges for Services under the Program Revenues column on the Statement of Activities of the Government-wide Financial Statements as revenue that would produce customer receivables for the City of Sioux Falls. These revenue streams are

serviced through seven unique point-of-sale software systems and the City's financial accounting software as noted above.

General Revenues such as Property, Sales, Frontage, Entertainment and other Intergovernmental Revenues create receivables at various times throughout the year. Since these revenue streams and corresponding receivables are low risk items and are due from other Governmental Entities they were excluded from our testing.

The revenue streams identified above and tested during our audit properly reflect the audit scope.

Receivables properly recorded

Accounts receivable subsidiary ledger reports as of December 31, 2015 were obtained directly from the individual billing systems. These ledgers were reviewed for accounts with credit balances, individually significant accounts, and mathematical accuracy. The report totals were reconciled to the general ledger and the accounts receivable balance reported on the City's 2015 Comprehensive Annual Financial Report (CAFR).

The Finance Department staff currently reconciles the individual subsidiary ledgers to the general ledger on a monthly basis and performs a complete review of the subsidiary aging reports on a quarterly basis. However, no documentation is retained to support that the review has occurred and who performed it. See Audit Recommendation on page 5.

Delinquent accounts properly collected

The City has documented billing and collection practices that are in place and functioning properly. Invoiced billing occurs within 31 days of the time of service and the majority of Vendors are set up on automatic bank withdrawals which serve as a more efficient way to process payments. Interest is charged on past due accounts and accounts over 90 days past due may have services denied as well as be turned over to collections.

We reviewed the subsidiary ledgers for individually significant account balances and identified two accounts with past due balances. One represented revenue due from the federal government for grant receivables and the other represented amounts due from a recent residential development project. Both are considered fully collectible based on review and discussions with management.

Per policy the Finance department performs regular analysis on its Accounts Receivable balances to identify delinquencies and proactively prevent an increase in bad debt write-offs. The addition of trend lines as an analysis tool would enhance this process and allow management to identify recurring trends and make necessary adjustments to credit terms in a timely matter.

Internal controls

We reviewed the current billing and collections procedures manual for the City and identified key internal controls over accounts receivable. Proper segregation of duties exists between the billing and collections procedures. Contract terms are clear and invoices are user friendly which promotes timely payments.

The City's financial software and billing software systems have restricted access which is password protected. All journal entries go through proper approval prior to being posted to the general ledger.

Landfill accounts on payment programs

We reviewed accounts from the Paradigm billing system with significant past due balances that had previously been identified by the Finance Department and were placed on payment programs. Five of the six identified accounts had a signed settlement agreement on file and the final account agreed to a court ordered judgment as part of a state court lawsuit. All five accounts on payment programs were paid in full and partial payment had been received on the remaining account as of the date this report was issued.

Subsequent to identifying these accounts, policies and procedures were put in place at the landfill that prevent a vendor from incurring additional balances if their account balance is 60 days past due or greater. In order to continue utilizing City services, they are required to pay cash until their past due balance is brought current. This policy went into effect as of May 31, 2016.

RECOMMENDATION

We made the following recommendation that address the above referenced results.

The Finance Department should develop written procedures regarding the reconciliation of the subsidiary accounts receivable ledgers to the amounts recorded in the general ledger accounts. This reconciliation should be performed on a regular basis and documented to ensure the amount reported on the financial statements is accurate.

Management's Response: The accounts receivable subsidiary ledgers will continue to be reconciled to the General Ledger and will be approved by a member of Finance management on a monthly basis. These reconciliations will be retained in the Finance Department until completion of the annual financial audit for that year, either in paper or electronic format.

Management Representative Responding: Tracy Turbak, Finance Director

Date of expected implementation: 2016

CONCLUSION

The implementation of the Billing and Collection Policy and the oversight of the Finance Department have increased the strength of the internal controls over the City's Accounts Receivables. Proper documentation of the procedures being performed will enhance internal controls over financial reporting. We appreciate management's assistance and cooperation during this audit.

AUTHORIZATION

The Internal Audit division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

AUDIT STANDARDS

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

STATEMENT OF INDEPENDENCE

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

DISTRIBUTION OF REPORT

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

PERFORMED BY

Kimberly Schroeder, CIA
Internal Auditor