Office of Internal Audit

Performance Audit 23-04:
Oracle Collections Process

October 2023

City Auditor
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OFFICE OF INTERNAL AUDIT
Stan Sewell, City Auditor

October 10, 2023

To: Mayor Kelly
        City Council Members

Subject: Oracle Collections Process (Report #23-04)

Dear Mayor Kelly and City Council Members:

The attached report contains the results of our audit of the Treasurer's Office Oracle Collections Process. Our audit found multiple obsolete policies are located on the City's intranet. Overall, the <u>Finance Policy and Procedures Collection</u> manual is comprehensive. However, the policy does not require supervisory review of collection reports, a key internal control. We also found the majority of City departments adhere to the City's collection policies and procedures but we noted some instances of noncompliance.

In order to address the noted areas for improvement, we recommended actions to consolidate and update the procedures as well as provide training. We also recommended actions to improve process efficiencies by using Oracle mechanisms to assist with invoice preparation and to document the supervisory review. Prior to our audit, the Treasurer's Office recognized the need to improve the efficiency of the process. Currently, the division is in the test phase of a new template that will reduce duplicative data-entry.

We thank the management and staff of the City Treasurer's Office for their cooperation and assistance during the audit. We also thank the 82 employees from the various departments that participated in our survey.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
        Jermaine Freeman, Chief of Staff

Vickie Haley, Chief Financial Officer
Ryan Ewalt, Chief Operating Officer
Julia Bursch, Deputy Chief Operating Officer
Jamie Zurkiya, City Treasurer
Mande Lawrence, Chief Human Resources Officer
Jim Arnette, Tennessee Local Government Audit jim.arnette@cot.tn.gov

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2023 Audit Agenda. The objectives of this audit were to determine if:

- The Treasurer's Office has adequate written policies and procedures for the Oracle collections process; and,

- City departments reported revenue collections in accordance with City policies and procedures and Tennessee law.

BACKGROUND

The Department of Finance and Administration is responsible for managing all fiscal affairs. The Department consists of three divisions: Finance, Treasury and City Court Clerk.

The Treasurer's office is responsible for collecting and receiving all revenues due to the City of Chattanooga. The division is also responsible for the investment of all city funds and banking services.

The Treasurer's Office has 14 positions authorized in fiscal year 2024.

Exhibit 1: Treasurer's Office Positions

City Treasurer	1
Assistant City Treasurer	1
Property Tax Clerk II	2
Property Tax Clerk III	1
Revenue Specialist 2	6
Coordinator Senior Programs	1
Tax Manager	1
Treasury Analyst	1
Total Positions	14

Source: CABR 2024

The City Treasurer's Office is the hub of all city monetary transactions and strives to maximize the collection and deposit of city funds from multiple sources. Various City departments collect revenues for the City. Divisions that collect funds include, but are not limited to, City Treasurer, Citywide Services, City Court Clerk, Wastewater System, Parks & Outdoors, Transportation, and Land Development Office.

Oracle Collections Process

The City Treasurer's Office implemented Oracle's accounts receivable module in fiscal year 2022 to record collections. All monies received are recorded as an invoice in the accounts receivable system.

The division collecting revenues creates an Oracle invoice and attaches documentation to support the collection. The division then transports and deposits the funds with the City's bank. The deposit receipt and deposit support documentation is attached and emailed to the Treasurers' Office referencing the Oracle invoice. The Treasurer's office creates an Oracle receipt to clear the invoice. The bank deposit receipt and/or the ACH information is attached to the Oracle receipt transaction.

The Treasurer's office monitors daily deposits and the outstanding receivable invoices to ensure all deposits are recorded in the Oracle financial system.

In general, the Oracle accounts receivable module is not used to track all monies due to the City. Customer accounts are housed in various software systems including IGov (property tax), Wasteworks (recycling and landfill), Billmaster (residential and commercial sewer fees), and OpenGov (permits and licenses). Daily collections documented in these systems are recorded in Oracle either 1) through a secured data transfer or 2) using the collection process as described.

Statistical Information

As depicted in Exhibit 2, the City collects in excess of $300 million each fiscal year. Both fiscal years included over seven thousand transactions each to record the revenues in Oracle. The "credit memos" were created to correct invoicing errors and do not represent refunds.

Exhibit 2: Transactions by Fiscal Year

Accounts Receivable Billing	FY22	FY23
Invoices	309,609,199	321,638,307
Credit Memos	(4,210,611)	(5,208,333)
Total Collections	305,398,587	316,429,974

Source: Oracle Financial

FINDINGS AND RECOMMENDATIONS

Update Collection Policies. Policies and procedures are essential for ensuring clarity and consistency of transactions, compliance with law, efficient processes,

and reducing operational risks. The Treasurer's Office has one comprehensive collections policy; however, multiple outdated collection-related policies were located on the employee portal. In addition, the policies do not require supervisory review.

Finance policies posted to the employee portal (now The Landing) are outdated.

Policies and procedures for collections are maintained and accessed by employees via the employee portal (now The Landing). We reviewed all policies related to collections and internal controls. We located eight documents. Seven of the eight have not been reviewed and updated since the migration from Oracle EBS to Oracle Cloud.

GAO's Standards for Internal Control in the Federal Government Section 12.05 states "management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks."

Recommendation 1:

We recommend the Treasurer's Office review and remove out-of-date policies posted on The Landing.

Auditee Response: We concur with the audit finding and recommendation.

Estimated Implementation Date: December 31, 2023

Priority Level: 2

Recommendation 2:

We recommend the Treasurer's Office consolidate all collection related policies and procedures into one comprehensive collection policy. The policy should document its effective date and require an annual review.

Auditee Response: We concur with the audit finding and recommendation.

Estimated Implementation Date: March 31, 2024

Priority Level: 2

The policies should require a documented supervisory review.

Our test work found 50% of collection reports were not reviewed and approved by a supervisor. The following rate of deviations from policies were identified in our review of 58 collection transactions (invoices and receipts).

Exhibit 3: Deviation rate by Policy[1]

	Supervisor Review		Overall
	Yes	No	Rate
Adequate support documentation was not attached to invoice	7%	10%	9%
Deposits were not made within 3 business days of collection	3%	7%	5%
Collections were not timely recorded in Oracle	14%	17%	16%
Deposits were not timely reported to Treasurer's Office	21%	17%	19%

As depicted in Exhibit 3, the lack of a supervisory review resulted in a higher rate of policy violations with one exception. Timely reporting the deposit to the Treasurer's Office had a higher rate of error when a supervisor reviewed the collections. This is likely due to the additional time needed to review the support documentation.

GAO's Standards for Internal Control in the Federal Government Section 16.05 states "management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations."

Documenting the supervisory review is a best practice that enhances accountability and compliance. As noted, several divisions have implemented the supervisor review. The most common practice was emailing the collection documentation to a supervisor who then reviews and forwards an approval to the Treasurer's Office.

Based on our research, we found an Oracle mechanism that provides designated approvers the privilege to complete accounts receivable invoice transactions. The invoice transaction is created by the collection preparer and remains as incomplete until the designated approver reviews it for accuracy and completeness. Using the Oracle mechanism would maintain all documentation in the Oracle system.

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[1] Per the City's Internal Control Manual "work flow of documents is mapped so certain employees are authorized to review and approve each [collection report] prior to posting in the general ledger." In addition, "all funds regardless of the source received by the City must be reported to the Treasurer's Office within three business days of the initial receipt."

Recommendation 3:

We recommend the Treasurer's Office update the Collections Policy & Procedures manual to require supervisory review.

Auditee Response: *We concur with the audit finding and recommendation.*

Estimated Implementation Date: *March 31, 2024*

Priority Level: *2*

Recommendation 4:

We recommend the Treasurer's Office implement a mechanism for departments to document the supervisory review.

Auditee Response: *We concur with the audit finding and recommendation. We will adopt the email from the supervisor as the required review. We have been told by our implementer that there is no workflow available in the A/R module.*

Estimated Implementation Date: *March 31, 2024*

Priority Level: *3*

Recommendation 5:

We recommend the Treasurer's Office provide notification of policy violations to department heads.

Auditee Response: *We concur with the audit finding and recommendation.*

Estimated Implementation Date: *Immediately*

Priority Level: *1*

Develop and implement citywide training.

Test work shows training is needed to improve compliance with policies and procedures (see Exhibit 3). Forty-six percent of staff responding to our survey did not or don't recall receiving training. In addition, forty-one percent of respondents did not or don't recall receiving the Finance collection policy. Several employees identified training as a need when asked about improvements to the process.

Our survey also indicates several policies are not followed by respondents. For instance, 17% of respondents do not store their collections in secure locations prior to depositing with the bank. We

also found that 57% of respondents indicated they do not maintain a transfer log when funds are transferred between employees.

GAO's <u>Standards for Internal Control in the Federal Government</u>, Section 12.04 states "management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities."

An essential internal control, training provides the knowledge needed to ensure compliance with management's policies and procedures. On-going training is necessary to ensure continuous improvement and adaptation to change.

Recommendation 6:

We recommend the Treasurer's Office develop and administer citywide training on the updated collection policy & procedures.

Auditee Response: *We concur with the audit finding and recommendation.*

Estimated Implementation Date: *September 30, 2024*

Priority Level: *2*

Recommendation 7:

We recommend the Human Resource Department include the Treasurer's Office training during onboarding of new hires with collection responsibilities.

Auditee Response (Human Resources): *Human Resources will work with the Treasurer's Office to develop department training pursuant to the findings.*

Estimated Implementation Date: *September 30, 2024*

Priority Level: *2*

Implement Oracle mechanisms to improve efficiency.

For divisions that require multiple accounting strings to report revenues, the collection process is time-consuming. Based on our survey, the most requested process improvement was auto-population of accounting strings on the invoice.

Current process requires manual entry of accounting strings each time a collection transaction is recorded in the accounts receivable module. This process is both time consuming and prone to data entry errors.

At the time of this report, the Treasurer's Office was testing an

alternative method to record collections. If successful, the new method will decrease repetitive data-entry and include a supervisory review.

Recommendation 8:

We recommend the Treasurer's Office develop and implement a mechanism to reduce repetitive data-entry for collection transactions.

Auditee Response: *We concur with the audit finding and recommendation. All point of sale transactions will be uploaded directly to the general ledger via a spreadsheet. A copy of the spreadsheet can be uploaded to Oracle without re-typing the same accounting strings. It also has a departmental workflow which allows the supervisor to approve the transaction in Oracle. The Treasury management will have the final approval prior to posting. There is still some testing required before it can be implemented.*

Estimated Implementation Date: *March 31, 2024*

Priority Level: *2*

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers the oracle collections process from January 1, 2023 to July 31, 2023. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from the Finance Department. Original records as well as copies were used as evidence and verified through physical examination.

We reviewed a random sample of collections to verify policies, procedures and State law was followed. We also conducted a survey of the 110 employees that recorded a collection in the Oracle system during the audit scope. We received 82 responses, a 75% response rate.

To evaluate the efficiency of the process, we interviewed staff to gain an understanding of the process, reviewed policies and procedures and analyzed the survey results.

The sample size and selection were statistically generated using a desired confidence level of 95 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on data maintained in Oracle Fusion. We assessed the reliability of the data and conducted sufficient tests of the data. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

We conducted this performance audit from July 2023 to September 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: PRIORITY LEVEL DEFINITIONS

Priority 1: Critical control weakness exists that exposes the City to a high degree of risk. Noncompliance with federal, state or local law, regulation, statute, charter or ordinance will always be considered a priority 1.

Priority 2: Control weakness exists that exposes the City to a moderate degree of risk.

Priority 3: The opportunity for improved efficiency or reduced exposure to risk exists.

City of Chattanooga Fraud, Waste, and Abuse Hotline

Internal Audit's Fraud, Waste, and Abuse Hotline gives employees and citizens an avenue to report misconduct, waste or misuse of resources in any City facility or department.

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