

**Performance Audit 17-06:
Accounts Receivable**

September 2017

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

September 7, 2017

To: Mayor Andy Berke
City Council Members

Subject: Accounts Receivable Audit (Report #17-06)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of Accounts Receivable. Our audit found the City has policies and procedures addressing collections and cash receipts. However, the existing policies and procedures do not adequately cover the overall accounts receivable process. We also found the ability to manage accounts receivable in some departments is limited. In order to address the noted areas for improvement, we recommended actions to expand policies and procedures. We also recommended City departments be provided a uniform accounts receivable management system that generates an aging analysis to manage outstanding balances.

We thank the management and staff of the Finance Department and Treasurer's Office for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Stacy Richardson, Chief of Staff
Maura Sullivan, Chief Operating Officer
Daisy Madison, Chief Financial Officer
Theresa Lee, City Treasurer
Brian Smart, Operations Manager
Jim Arnette, TN Local Government Audit

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2017 Audit Agenda. The objective of this audit was to evaluate the adequacy of:

- accounts receivable policies, procedures and processes related to revenue generated in city departments.

BACKGROUND

The City of Chattanooga's revenues include property taxes, sales and use taxes, other taxes, grants, contributions, licenses, permits, user fees, charges for services, investment income, fines, forfeitures and penalties. The revenues are collected in various ways, including cash collection at the point of service, remittances by other governments, invoiced billings for services, fines and other charges for payment at a later date. The invoiced billings result in accounts receivable, or money owed to the City by other entities and individuals.

The majority of the accounts receivable are from governmental sources and taxes, such as grants, property taxes and sewer fees. Other accounts receivable result from billings within various City departments that provide a direct service to the public.

The City does not use a centralized system to record accounts receivable. Some departments use specialized accounts receivable software, while other departments use a template for invoicing and a spreadsheet to manually track collections.

Financial Information

Over \$260 million in accounts receivable were owed the City as of June 30, 2016. Approximately 67% of this amount is from Governmental Activities such as taxes, intergovernmental and community development loans. Around 32% were from business-type activities with other accounts receivable totaling approximately \$887,000.

The City received \$79 million from governmental activities in fiscal year 2016 and \$803 million from business activities. Other general revenues totaled \$241 million, including property taxes, sales taxes, other taxes, investment earnings and gain on sale of capital assets.

FINDINGS AND RECOMMENDATIONS

Expand Policies and Procedures

We found the existing policies and procedures related to the City's accounts receivable process were not broad enough. The Finance Department has policies and procedures addressing collections and cash receipts. However, the existing policies and procedures do not adequately cover the overall accounts receivable process.

The Government Finance Officers Association (GFOA) Best Practices indicates, "Accounts receivable should be established for services provided in advance of payment and terms of collection should be established. In accordance with established procedures, bills should be initiated, recorded in an accounts receivable system, and generated within an established timely manner after initial service delivery. Effort should be made to ensure that receivables are collected in a timely fashion. A policy should be established to provide for 'write-offs of accounts receivable, including timeframe, dollar thresholds and decision-making authority.'"¹

Without sufficient policies and procedures, there is a risk for inconsistent practices among employees and discontinuity that could increase should city departments experience staff turnover. Additionally, there is a risk receivables and revenue may not be properly recorded and collected.

Recommendation 1:

We recommend the Finance Department expand policies and procedures for the accounts receivable process, including write-offs. After issuance of the policies and procedures, the Finance and Treasury Divisions should provide suitable training.

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

¹ <http://www.gfoa.org/revenue-control-policy> , Government Finance Officers Association (GFOA), 2012.

**Improve Receivable
Management at
Department Level**

We found the ability to manage accounts receivable in various departments is limited. We noted that some departments collection of receivables are typically manually tracked using an excel spreadsheet that does not allow for an aging analysis. The total amount of a department's receivables is only reported once each year during the year-end closing process.

The GFOA Best Practices indicates, "All accounts receivable should be recorded in a manner that allows for aging analysis. After reviewing available collection options, governments should establish procedures to maximize collections."¹

Without the ability to age receivables, there is a risk departments may not promptly follow up on past-due receivables and some past-due billings may not be collected.

Recommendation 2:

We recommend the Finance Department provide a uniform accounts receivable management system that generates an aging analysis to manage outstanding balances. The system could also be used for uniform invoicing and the imposition of late fees.

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

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers accounts receivable from July 1, 2016 to June 30, 2017. When appropriate, the scope was expanded to meet the audit objective. Source documentation was obtained from the Finance Department and Treasurer's Office, as well as various departments. Original records as well as copies were used as evidence and verified through physical examination.

To evaluate the adequacy of accounts receivable policies, procedures and processes related to revenue generated in departments, we conducted interviews and communicated with department personnel and reviewed available documentation. We also reviewed applicable guidelines, and existing policies and procedures related to accounts receivable.

To develop our recommendations, we reviewed industry best practice documents and discussed ideas with the Finance Department and Treasurer's Office employees.

We conducted this performance audit from April 2017 to August 1, 2017 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.

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.

Internal Audit contracts with a hotline vendor, The Network, to provide and maintain the reporting system. The third party system allows for anonymous reports. All reports are taken seriously and responded to in a timely manner. Reports to the hotline serve the public interest and assist the Office of Internal Audit in meeting high standards of public accountability.

To make a report, call 1-877-338-4452 or visit our website:
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