

Audit

Follow-Up

As of September 30, 2012



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Audit of Selected Departments Performing Accounts Receivable Functions

(Report #1204 issued February 15, 2012)

Report #1306

January 31, 2013

Summary

This is the second follow up on the Audit of Selected Departments Performing Accounts Receivable Functions (Report #1204 issued February 15, 2012). As of September 30, 2012, 36 (73%) of the 49 action plan steps due have been completed. Ten actions plan steps were completed during this follow-up period, 26 steps were completed in the previous follow up, actions are ongoing to complete 13 steps currently due, and the remaining four steps are not due until the next follow-up period.

In audit report #1204, we recommended departments conducting their own billings should start billing through Department of Management and Administration – Accounts Receivable (DMA A/R) in accordance with City Policy 609, “Accounts Receivable Non-Utility Funds,” or request an exception to the policy. Should any area request an exception to the policy, we recommended the department director, Accounting Services Manager, and executive management evaluate each area’s cost-benefit analysis and segregation of duties plan to determine whether an exception to APP 609 should be approved. All exceptions should be documented. Additionally, areas conducting their own billing or collection activities should implement all appropriate controls that a centralized accounts receivable and revenue section would, and follow the City’s Revenue Collection Policy (APP 616), on past due receivables.

Of the seven action plan steps due for DMA A/R, all are in progress. The seven steps include: 1) provide access for all areas to BusinessWorks or an electronic copy of the monthly BusinessWorks reports; 2) modify the A/R policy to allow for certain exemptions to the policy, as long as proper internal controls are in place; 3) implement additional controls to monitor write offs made by

the A/R Supervisor; 4) upgrade the Nortridge system, 5) conduct top level reviews of A/R activities; 6) establish written performance measurement goals to aid DMA A/R management in measuring the accuracy and efficiency of the accounts receivable activities; and 7) develop and implement procedures related to grants management.

Of the 10 action plan steps due for Code Enforcement and the City Attorney’s Office, nine have been completed and one is in progress. The four steps completed during this period include: 1) requesting and documenting an exception to APP 609; 2) closing the City’s jointly owned bank account with Stiles; 3) having all collection proceeds deposited directly into the City’s own bank account; and 4) requiring Stiles to submit expense reimbursement requests to the City for review. Steps in progress include: implementing a process to measure performance and evaluate the effectiveness of the collection efforts of Code Enforcement’s outstanding fines.

We commend Parks, Recreation & Neighborhood Affairs (PRNA) and Revenue for completing all of their remaining action plan steps during this follow-up period. Revenue documented their exception to conduct their own billing, and implemented segregation of duties in their billing process. PRNA implemented processes to bill through DMA A/R and monitor invoices to ensure correct amounts are being billed and paid.

Additionally, we commend Building Services, Communications, Fire, Information Services Systems (ISS), Police, Property Management, Public Works, and Underground Utilities for completing all of their action plan items during the previous follow-up period.

Four areas have made progress, but are not completed with all of their action plan steps due as

of September 30, 2012: DMA A/R has seven steps remaining, Code Enforcement has one step remaining, Fire has one step remaining, Housing has one step remaining, Growth Management has two steps remaining, and Risk Management has one step remaining.

We appreciate the cooperation and assistance provided by all City management and staff during this follow-up audit. Service areas providing direct assistance included the DMA (Accounting Services), the City Attorney's Office, Safety and Neighborhood Services (Code Enforcement; Fire; Housing; and Parks, Recreation and Neighborhood Affairs), Development and Transportation Services (Growth Management), and City Treasurer-Clerk's Office (Revenue and Risk Management).

Scope, Objectives, and Methodology

We conducted this audit follow-up in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit follow-up objectives.

Report #1204

The scope of report #1204 was to audit the internal controls related to the City's non-utility accounts receivables. The objectives were to:

- 1) Obtain an understanding of and evaluate internal controls related to non-utility accounts receivable and collections processes.
- 2) Identify any billing functions that were not being conducted according to City policies and accounts receivable not reported on the City's financial statements.

During the audit, we also reviewed the internal controls related to grants billing activities invoiced directly by departments, not through DMA A/R, and reviewed user access controls in two key application systems that process A/R, BusinessWorks (used by DMA A/R) and Permits Environmental Tracking System (PETS, used by Growth Management Department to process billings for building permits and inspections).

Report #1306

This is our second follow-up on action plan steps identified in audit report #1204. The purpose of this follow up is to report on the progress and status of efforts to complete action plan steps due for completion as of September 30, 2012. To determine the status of the action plan steps, we interviewed staff and reviewed relevant documentation.

Background

The City has established an Accounts Receivable Section housed in the Department of Management and Administration (DMA) Accounts Receivable (A/R) Section. Through City Administrative Policies and Procedures (APP) 609, "Accounts Receivable Non-Utility Funds," DMA A/R staff has been delegated the direct responsibility for invoicing and recording non-utility funds receivables for all City Departments. The objective of APP 609 is "to ensure that all non-utility funds receivable to the City are recorded in the City's books through a centralized process in which invoices are rendered, journal entries are recorded, receipt of payment is monitored, and the collection process is initiated for non-payment." Through APP 609, controls were established to ensure the billing process included an adequate segregation of duties and that all billings were properly initiated and approved, issued, and monitored.

In report #1204, we concluded there were adequate internal controls in place related to billing activities processed through DMA A/R. DMA A/R processed approximately \$32.5 million (or 88%) of the total \$37 million of A/R processed by the City in FY 2010. Approximately \$4.5 million in FY 2010, or 12% of the total billings in FY 2010, were processed outside of DMA A/R.

During our audit, we identified 11 areas that conducted their own billing activities separate from the billing activities conducted through the DMA A/R Section. Those 11 areas were Building Services; Communications; Code Enforcement (in partnership with the City Attorney's Office); Fire; Housing; Parks, Recreation & Neighborhood Affairs (PRNA); Property Management; Growth Management; Public Works – Capital Projects; Risk Management; and Revenue. Housing and PRNA also conducted some, but not all, billings through DMA A/R.

Regarding collections, we noted there were two major collection efforts being conducted in the City for aged unpaid invoices. First, DMA A/R sends outstanding invoices to Utility Business and Customer Services

(UBCS) for them to work with a contracted collection agency. Second, Code Enforcement and the City Attorney’s Office send unpaid code violations to a contracted law firm (Stiles) to conduct collection activities. We concluded that improvements should be made to address the following issues:

- There was not a City policy related to collection activities identifying who was responsible for performing collection activities and what controls should be in place, what reporting is required, or how performance should be measured.
- The performance of the external collection agents were not measured or evaluated.
- The Stiles law firm was writing checks to reimburse themselves from a bank account jointly owned with the City, prior to receiving required City authorization.
- City program revenues and payments made to Stiles were not properly accounted for or budgeted since 2004.
- City prepared 1099s reported incorrect payment amounts to the IRS for Stiles from 2004 to 2011.

Additionally, we noted there was little guidance related to billings of grants received by the City. Grant billings were occurring in DMA A/R and outside of DMA A/R, and not all grant activities were reported to

Accounting Services to be considered for inclusion in the City’s annual budget and year-end financial statements.

The audit report provided descriptions of each area’s billing activities, and outlined the internal controls that should be in place, results of our review identifying controls that were or were not in place, and recommendations to ensure proper controls related to billing activities were in place. Such controls were related to compliance, segregation of incompatible duties, monitoring and reconciliation of A/R, security of assets and records, properly designed records, timely preparation of financial statements in conformity with generally accepted accounting principles, execution and transactions, information and communication, and performance measures.

Previous Conditions and Current Status

In report #1204, we provided recommendations to City management related to areas that need to be addressed in the DMA A/R and other departments related to City billings and grants management. Management’s Action Plan consisted of 53 action plan steps, 49 being due for completion before or by September 30, 2012. The status of action plan steps due is provided in Table 1.

**Table 1
Action Plan Steps from Audit Report #1204
Due as of September 30, 2012, and Current Status**

Action Plan Steps Due as of September 30, 2012	Current Status
DMA A/R	
<ul style="list-style-type: none"> • DMA A/R will annually distribute the A/R policy as a reminder that all billings should be processed through DMA A/R. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> • All areas will either have access to BusinessWorks, or receive an electronic copy of the reports from BusinessWorks. 	<ul style="list-style-type: none"> ❖ In progress. DMA A/R is working with the different City departments to either grant access to BusinessWorks, or provide copies of reports from BusinessWorks. The completion date has been amended to June 30, 2013.
<ul style="list-style-type: none"> • A/R policy will be modified to allow for certain exemptions to the policy, as long as proper internal controls are in place. 	<ul style="list-style-type: none"> ❖ In progress. DMA A/R is in the process of allowing for certain exemptions to the policy, but has not yet determined how to incorporate this into the existing policy. The completion date has been amended to June 30, 2013.
<ul style="list-style-type: none"> • DMA will either implement additional controls to prevent the A/R Supervisor from approving her own write offs or monitor write offs made by the A/R Supervisor. 	<ul style="list-style-type: none"> ❖ In progress. DMA A/R had developed a process to monitor write-offs quarterly, but the process has not been implemented to date. The completion date has been amended to June 30, 2013.

<ul style="list-style-type: none"> Individual user IDs and passwords will be assigned for each person who has systems administrator access. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> The upgrade to the Nortridge system will allow the capability of assigning unique user IDs and passwords to each user. 	<ul style="list-style-type: none"> ❖ In progress. DMA A/R is in the process of upgrading the Nortridge system, but the upgrade has not been completed. The completion date has been amended to June 30, 2013.
<ul style="list-style-type: none"> DMA A/R will identify ways to utilize the functionality of BusinessWorks to improve reporting capabilities. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> Top level reviews will be conducted of A/R activities. 	<ul style="list-style-type: none"> ❖ In progress. DMA A/R has developed the steps to use in conducting top level reviews quarterly. The completion date has been amended to June 30, 2013.
<ul style="list-style-type: none"> DMA A/R will work with BusinessWorks technical assistance to set up reports necessary to track outstanding invoices, and adjusted and written-off A/R. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> DMA A/R will establish written performance measurement goals to aid management in measuring the accuracy and efficiency of the accounts receivable activities. 	<ul style="list-style-type: none"> ❖ In progress. DMA A/R is developing written performance measurement goals, but has not finalized or implemented those goals. The completion date has been amended to June 30, 2013.
Building Services	
<ul style="list-style-type: none"> Issue all billings and invoices through DMA A/R. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> Monitor the invoices to ensure correct amounts are being billed. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
Communications	
<ul style="list-style-type: none"> Issue all billings and invoices through DMA A/R. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> Monitor the invoices to ensure correct amounts are being billed. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
Code Enforcement and City Attorney's Office	
<ul style="list-style-type: none"> Request and document an exception to APP 609, and implement all appropriate internal controls. 	<ul style="list-style-type: none"> ✓ Completed. Code Enforcement has requested and received an exception to APP 609.
<ul style="list-style-type: none"> Monitor the invoices to ensure correct amounts are being billed. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> Conduct a complete reconciliation of all receivables sent to Stiles, and its predecessor, since the beginning of their business relationship with the City to verify how much should have been paid for each collection, along with how much of the payments to Stiles should be recorded as nonemployee compensation, and how much should be recorded as reimbursements for 1099 reporting. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> At the completion of this reconciliation, work with DMA Procurement to immediately correct the prior 7 years' 1099 documentation including the payments of penalties and interest, if any, by the City. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> Close the City's jointly owned bank account with Stiles. 	<ul style="list-style-type: none"> ✓ Completed. The joint bank account was closed in July 2012.
<ul style="list-style-type: none"> Have all collection proceeds deposited into the City's bank account. 	<ul style="list-style-type: none"> ✓ Completed. Collection proceeds for code violations are now being deposited into the City's bank account.

<ul style="list-style-type: none"> Implement a process to measure performance and evaluate the effectiveness of the collection efforts of Code Enforcement’s outstanding fines. 	<ul style="list-style-type: none"> ❖ In progress. Code Enforcement is planning to produce its initial quarterly report after the first quarter of fiscal year 2013. We will review the report when available.
<ul style="list-style-type: none"> Require Stiles to submit reimbursement requests for authorized expenses to the City for review, approval, and processing through the City’s accounts payable procedures within a time period that is both reasonable and timely. 	<ul style="list-style-type: none"> ✓ Completed. A new contract has been executed requiring payments to be deposited into the City’s bank account, and Stiles is submitting invoices for reimbursement which are being processed through the City’s Accounts Payable Division.
<ul style="list-style-type: none"> Determine if certain A/R files could be collected through the City’s other collection company. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> Request an appropriation in the City’s budget for future contracted legal fees and expenses. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
Fire	
<ul style="list-style-type: none"> Issue after-hour inspections through Growth Management. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> Billings for all other services: Fire began processing some of these invoices through DMA A/R in July 2011 and as of December 2011 Fire began processing all non-grant billings through DMA A/R. Regarding the requirement that we check/confirm the invoice amounts billed by DMA A/R with Fire’s requested amounts, a new field has been added to Fire’s Invoice Database which is being maintained to document correct invoiced amounts and to identify errors for correction. These actions are intended to resolve all of the audit issues for Fire’s non-grant billings (numbering of invoices, receipt of payment, etc.) 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> Billings for State Homeland Security Grant Program expenditure reimbursement: Fire’s action plan for development of procedures for grant expense billings is pending the development of a new citywide procedure as it has been recognized that the City’s procedures do not adequately address these types of billings. Upon development of the citywide procedure, Fire will develop our procedure to conform with it. 	<ul style="list-style-type: none"> ❖ In progress. DMA Accounting Services is working to provide guidance for departments on what is required related to processing billing and reporting of grants received by the City. When these procedures are complete, Fire is planning to follow those procedures for their billings of grants. The amended completion date is September 30, 2013.
Housing	
<ul style="list-style-type: none"> Issue all billings and invoices through DMA A/R. 	<ul style="list-style-type: none"> ✓ Completed. Code Enforcement has requested and received an exception to APP 609.
<ul style="list-style-type: none"> Monitor the invoices to ensure correct amounts are being billed. 	<ul style="list-style-type: none"> ❖ In progress. Housing has implemented a process, but no billings have been necessary yet to test the procedures. The amended completion date is March 31, 2013.
Parks, Recreation, and Neighborhood Affairs	
<ul style="list-style-type: none"> PRNA will work with DMA to evaluate the possibility of requesting an exception to allow PRNA 72 hours to collect payment prior to sending a billing request to A/R. If an exception is not requested or approved, PRNA will begin billing all invoices through A/R. 	<ul style="list-style-type: none"> ✓ Completed. PRNA is now billing through DMA A/R.

<ul style="list-style-type: none"> • Monitor the invoices to ensure correct amounts are being billed. 	<ul style="list-style-type: none"> ✓ Completed. PRNA is monitoring invoices to ensure correct amounts are being billed and paid.
<p>Property Management</p>	
<ul style="list-style-type: none"> • Property Management will notify any funeral homes that have been extended credit that this procedure will be modified effective February 1, 2012 to ensure that all lot sales are paid in advance. Property Management will not bill for cemetery lot sales. If an exception is made to this procedure, the account will be billed through DMA A/R. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<p>Growth Management</p>	
<ul style="list-style-type: none"> • Produce an automated report to be submitted to Accounts Receivable that tracks billings of invoices from Permits Plus according to the timeline and content specifications of Accounts Receivable. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> • Develop and put into place a detailed process whereby all invoice activity (defined as those instances where Growth Management currently mails request to the customer for payment) is sent to Accounts Receivable for collections activity. Growth Management staff will utilize the BusinessWorks application to monitor the collection activities of the Accounts Receivable Section and then post payments into Permits Plus. There were 8 instances of such activity for the FY2010 period for Building Inspection. There were 262 Storm Water Operating Permits (SWOP) for the FY2010 period for Land Use and Environmental Services that fall into this category and 1 non-SWOP activity. There were no instances of invoice activity for the Administration Division for the FY2010 period. 	<ul style="list-style-type: none"> ❖ In progress. To better serve City customers, Growth Management is planning to bring the billings process back into their office, along with implementing additional internal controls to better protect collected monies. Such controls include utilizing a new computer system for billing invoices and enhancing their tracking and monitoring of outstanding receivables. Growth Management will request an exception to APP 609 and their internal control procedures will be evaluated during the review of this exception request. Until the new processes are fully implemented, Growth Management will implement interim processes. We will review such processes to assist Growth Management assess any risks and recommend compensating controls as necessary. The amended completion date will be December 31, 2013.
<ul style="list-style-type: none"> • Monitor the invoices billed through DMA A/R to ensure correct amounts are being billed. [Note: this action plan item was revised to better reflect the monitoring of billings.] 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> • Put into place a detailed process whereby all fees for in house customers of the Building Inspection Division are sent to the Treasurer-Clerk's office to render payment for permitting activities. This will eliminate daily reconciliation processes of cash and checks by Building Inspection Staff. 	<ul style="list-style-type: none"> ❖ In progress. Growth Management has recently hired a new building official, and he is working with the new Revenue Administrator to establish payment procedures for permitting activities. The amended completion date is September 30, 2013.
<ul style="list-style-type: none"> • Growth Management will implement a process to monitor and ensure Growth Management employees' access to PETS, including system administrator rights, is limited to only what is needed for their job responsibilities. (Note: Due to limitations in the PETS system, this action plan was revised to better reflect the controls over user access that could be implemented.) 	<ul style="list-style-type: none"> ✓ Completed during prior period.

Public Works – Capital Projects	
• Issue all billings and invoices through DMA A/R.	✓ Completed during prior period.
• Monitor the invoices to ensure correct amounts are being billed (including Operations & Traffic).	✓ Completed during prior period.
Risk Management	
• Work with DMA A/R to document an exception to APP 609.	❖ In progress. Risk Management has requested the exception and is awaiting a response from DMA Accounting Services. The amended completion date is March 31, 2013, to allow time for Accounting Services to respond.
• Implement procedures to conduct reconciliations on a regular basis.	✓ Completed. Risk Management has created and implemented a monthly reconciliation process.
• Reprinted invoices will be clearly marked as a second request.	✓ Completed during prior period.
• Year-end outstanding receivables will be submitted to DMA A/R to be considered for inclusion in the City’s annual financial statements.	✓ Completed during prior period.
• Conduct periodic evaluations to measure the level of success of Risk Management’s collection efforts.	✓ Completed. Risk Management is tracking and measuring the success of their collection efforts.
Revenue	
• Work with DMA A/R to document an exception to APP 609 and conduct periodic evaluations to measure the level of success of Revenue’s collection efforts.	✓ Completed. Revenue has implemented a segregation of duties plan, and has documented an exception to APP 609 with Accounting Services. Additionally, Revenue is measuring collection efforts, and is labeling reprinted invoices as duplicates.
Billing of Grants	
• DMA will develop and implement procedures related to grants management to provide guidance to departments on what is required related to processing billing and reporting of grants received by the City.	❖ In progress. DMA A/R is in the process of developing procedures for billings of grants, but has not finalized the process. The completion date has been amended to September 30, 2013.
Departments not Verifying the amount billed by DMA A/R	
• Information System Services (ISS) will monitor the invoices to ensure correct amounts are being billed.	✓ Completed during prior period.
• Police will monitor the invoices to ensure correct amounts are being billed.	✓ Completed during prior period.
• Underground Utilities will monitor the invoices to ensure correct amounts are being billed.	✓ Completed during prior period.

Table Legend:

- Issue to be addressed from the original audit.
- ✓ Issue addressed and resolved.
- ❖ In progress. Action initiated but not completed.

Conclusion

Table 1 above shows 36 (73%) of the 49 action plan steps due before or by September 30, 2012, have been completed. As also shown in Table 1, efforts are in progress to complete 13 more action plan steps. The completion dates for the items in progress have been amended.

We appreciate the cooperation and assistance provided by all City management and staff during this follow-up audit. Service areas providing direct assistance included the DMA (Accounting Services), the City Attorney's Office, Safety and Neighborhood Services (Code Enforcement; Fire; Housing; and Parks, Recreation and Neighborhood Affairs), Development and Transportation Services (Growth Management), and the City Treasurer-Clerk's Office (Revenue and Risk Management).

Appointed Officials' Response

City Manager: The City Auditor's Office has conducted a detailed audit of the City's accounts receivable processes and procedures. The audit findings in the report demonstrate the broad scope of complexity involving our accounts receivable departments. I am pleased with the cooperation and the professionalism portrayed by the City Auditor's team and staff of the various audited departments. I am sure that the recommended improvements will result in measurable financial results to this government and community. The action items identified in this report will ensure that our internal controls and City policies are continued to be strictly adhered to in the future. I would like to thank the Auditor's Office as well as all departments for their hard work on this audit.

City Treasurer-Clerk: We appreciate the efforts of the City Auditor to follow up on the status of the action plan steps associated with this audit, and we are quite pleased with the progress made to date in addressing the action plan steps. We look forward to working with the other appropriate departments to assist in resolution of the remaining items.

City Attorney: We appreciate the thoroughness of the City Auditor and his staff on the accounts receivable audit. The review and findings were very informative, helpful, and fair in making necessary corrections to our processes. On behalf of all those involved in the City Attorney's Office, the professionalism of the Auditor's staff as we made necessary corrections was greatly appreciated.

Copies of this audit follow-up #1306 or audit report #1204 may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

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