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Management Review
of
Citywide Accounts Receivable

Report of Audit 04/05-XX-01

November 10, 2004



Office of Management and Budget
Internal Audit

MEMORANDUM NO. 05-11

DATE: November 10, 2004

TO: Director of Finance/Terry Sharp

SUBJECT: *Management Review of Citywide Accounts Receivable*

Enclosed is the “subject” Final Report of Audit.

Allyson C. Love
Director, Office of Management and Budget

Attachment - Final Report of Audit

c: City Commission
City Manager/George Gretsas
Assistant City Manager/Kathleen Gunn
Assistant City Manager/Stephen Scott
City Attorney/Harry Stewart
Chief of Police/Bruce Roberts
Fire Chief/Otis Latin

ACL/cs

REPORT OF AUDIT NO. 04/05-XX-01

DATE: October 6, 2004

TO: Director of Finance/Terry Sharp

CC: Fire Chief/Otis Latin
Chief of Police/Bruce Roberts

FROM: Director, Office of Management and Budget/Allyson C. Love

SUBJECT: *Management Review of Citywide Accounts Receivable*

BACKGROUND

The City of Fort Lauderdale (City) charges for services, such as code enforcement fines, building-related permits, occupational licenses, fire inspection fees, police and fire alarm response fees, utility services (water, sewer, sanitation and stormwater), leases, intergovernmental revenue (grants, municipal services benefit unit and related agreement with Broward County), insurance recoveries, parking citations, docks and waterway fees, outside sale of services from internal service funds, and miscellaneous fees.

The City acquires claims against the customers who receive these services via accounts receivable transactions. Currently, individual departments are responsible for the billing and subsequent collection of monies owed to the City for services provided. Outstanding receivables are usually settled via direct payments to the City's Finance Department, Treasury Division and payments on accounts are received at other departmental locations. All payments are routed to the Treasury Division for final processing in order to post cash collected to the City's Financial Accounting Management Information System (FAMIS) and for deposit to banks.

The City entered into a contractual relationship with an outside collection agency, Penn Credit Corporation, to handle delinquent account collection services. The flat fee for actual collections is 17%. The City can use collections methods as authorized by City Code to maximize bill collection or a lien can be placed on properties for non-payment of outstanding amounts due such as alarm response and inspection service fees.

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SCOPE

The objectives of our review were to identify the value of accounts receivable for police and fire alarm, fire inspection, and miscellaneous receivable billings including documenting the age of accounts receivable. We aged accounts receivable for fire and police alarm, fire inspection, and obtained miscellaneous receivables via an aging report generated from FAMIS. In addition, we reviewed internal controls over billing, collection and write-off functions. We reviewed the effectiveness of the management procedures over fire inspection, police and fire alarm accounts with credit balances. Confirmation letters with statements were mailed to selected accounts to verify balances. We also reviewed security access to the Encompass Automated System. Our review of transactions and documents spanned several fiscal years and represented the City's outstanding receivables as of February 2004. Our audit was conducted according to generally accepted government auditing standards during the months of February through April 2004.

OVERALL EVALUATION

The accounts receivable function is fragmented and lacks centralized monitoring and accountability. Internal controls are not adequate to effectively manage and monitor the accounts receivable function. Monthly billings are behind and not processed timely. Furthermore, little or no internal collection efforts were made to collect past due balances prior to the City's Treasury Division turning accounts over to Penn Credit for collection. The City also does not have written policies and procedures to guide and direct staff in billing and collection, as well as writing-off uncollectible accounts and processing credit balances. Finally, controls are not adequate to restrict Encompass users from having access to financial processing screens.

FINDING 1

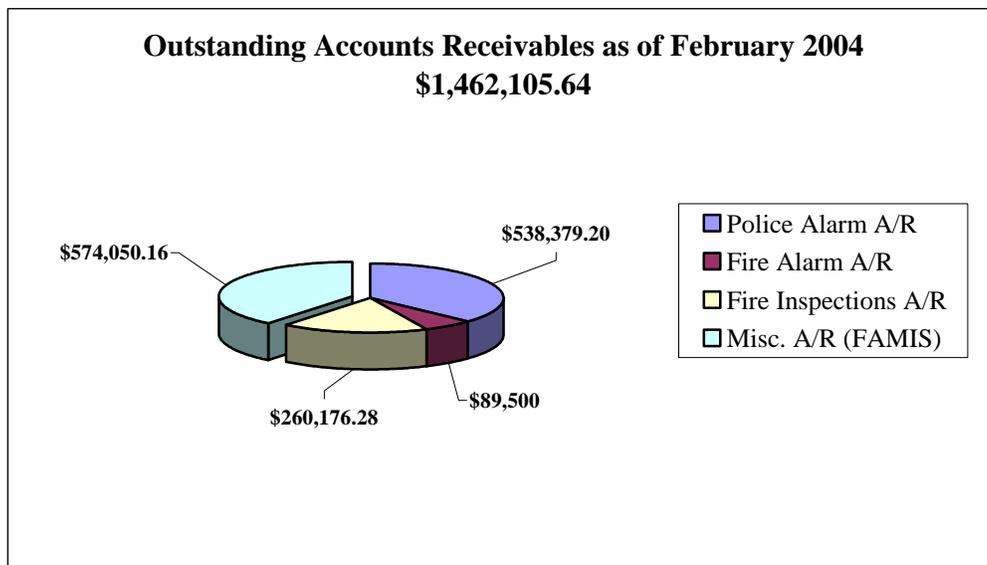
The City has not collected \$1,462,105.64¹ in outstanding fees with \$318,329.07 (22%) representing amounts delinquent for more than 4 years and \$302,659.86 over 1 year past due.

¹ Police and fire alarm response fees, fire inspection service fees and miscellaneous receivables.

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The City of Fort Lauderdale Code of Ordinance, Article V. Finance, Sec. 2-147 (b)(4) Department Head requires the Director of Finance, either personally or through employees in the Finance Department, to perform the following duties and exercise the following powers...and keep regular records and accounts of all assets and liabilities of the City, which shall at all times show the financial condition of the City.

Government Finance Officers Association recommended practice advises that ...delinquent accounts become more difficult to collect as they age, it is imperative that appropriate steps are taken as soon as possible after an account becomes delinquent or, if possible, before an account becomes delinquent...A decentralized collection process often leads to a fragmented and less efficient collection operation, particularly in collecting delinquent revenues.



The following internal control weaknesses were identified (**Schedule 1**).

- No one individual/department is responsible for the overall management (billing and collection) of Citywide accounts receivable, which leads to a fragmented, decentralized system which lacks monitoring, oversight and accountability.
- The City continues to operate without written policies and procedures to guide staff in the management of key aspects of the accounts receivable function: billing standards, collection, credit balances, write-offs, etc. A comprehensive policy on billing and collection of revenues was supposed to be issued in response to Report of Audit No. 93/94-XX-23 and 98/99-XX-01 by February 28, 1999.

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- Fire inspection, police and fire alarm fees were not billed in a timely manner. False alarm billings were backlogged four to five months, which results in loss of interest and cash flow due to inefficient/untimely billing practices. Fire inspection billings average a three-month backlog.
- Departments (Police and Fire) with accounts receivable located in the Encompass system² do not interface with the City's FAMIS; thus, do not flow to the City's financial statements until the department receives the revenue. The City has no policy or procedure in place to monitor and collect past due account balances when no payment is received.
- Accounts receivable located in the Encompass System database totaling \$888,055.48 (61%) were not recorded in the City's general ledger, resulting in these receivables not being reported in the City's Comprehensive Annual Financial Report (CAFR) (**Schedule 1**).
- No aging of accounts receivable located in the Encompass system² is done to provide a means to monitor and concentrate on in-house collection efforts. Also, no timeframe or plan exists to take aggressive internal follow-up actions on outstanding receivables. Additionally, no management reports are generated and reviewed by the City Treasurer to monitor Citywide accounts receivable balances (e.g., trial balance). The aging of receivables is an essential component to formulate and monitor collection efforts.
- Phone calls are not made to non/slow paying customers/accounts to possibly accelerate the receipt of payments to enhance cash flow. We also noted inconsistencies in the internal collection efforts made by departments. Some send multiple bills, while fire and police alarm billing only send an initial bill before final notice is sent to commence placement of liens or collections (**Schedule 2**).
- To confirm the validity of outstanding balances, Internal Audit mailed confirmation letters to customers/accounts with statements in order for them to verify the balance. The results of this effort yielded payments of \$4,394.04 (10%) of the total amounts billed. This effort further supports the premise that when diligent and aggressive internal collection efforts are performed, the likelihood to collect monies is increased.

² Police and fire alarm response fees and fire inspection service fees.

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Fee Type	Confirmation Letters Sent	Amts Billed	# of Paymts Rec'd	Payments Received
Fire Inspection	181	\$ 24,112.00	14	\$ 886.44
Police Alarms	201	13,597.00	35	2,607.60
Fire Alarms	37	6,700.00	5	900.00
Total	419	\$ 44,409.00	54	\$ 4,394.04

- No write-off policy exists to define when the various types of Citywide accounts are considered uncollectible to provide management with a tool to measure the effectiveness of collection efforts and establish a basis for uncollectible amounts. Additionally, no allowance for uncollectible accounts has been established for accounts receivable in the Encompass database as well as the miscellaneous accounts receivable showing in FAMIS. Furthermore, we noted several accounts were voided in the accounts receivable system in FAMIS as opposed to being charged to an account for uncollectible debt.

Effective management and an aggressive collection program of all City accounts receivable will strengthen accountability and maximize payments ultimately received for services provided, in a more timely manner, and result in an increased control of cash flow.

**RECOMMENDATIONS AND
MANAGEMENT COMMENTS**

The *Director of Finance* should:

Recommendation 1. *Assign the Treasurer full responsibility and accountability for centralized administration, billing and collection of Citywide accounts receivable.*

Management Comment. *Management concurred with the finding and recommendation and stated:* “The position of Treasurer is currently vacant. The recruitment process is expected to be completed by November 30, 2004. This audit will be provided to the new Treasurer for review and to make recommendations on what resources will be necessary to implement changes.” **Estimated completion date January 31, 2005.**

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Recommendation 2. *Ensure written policy and procedures are established, issued and implemented to provide direction and guidance for managing, billing and collection of Citywide accounts receivable. The policy should specifically address capturing the true value of all accounts receivable and recording the value in the City's financial reports, billing timeliness, as well as incorporate recommendations 5 through 14 herein.*

Management Comment. *Management concurred with the recommendation and stated:* “The Finance Department will review existing procedures and expand or rewrite them as necessary.” **Estimated completion date January 31, 2005.**

Recommendation 3. *Coordinate with the Fire Chief and Police Chief to evaluate how resources could be allocated to reduce the fire inspection and fire and police alarm backlog.*

Management Comment. *Management concurred with the recommendation and stated:* “The Finance Department concurs with this recommendation.” **Estimated completion date January 31, 2005.**

Recommendation 4. *Purchase an automated billing system to handle Citywide accounts receivable or coordinate with Information Systems to purchase only systems where the accounts receivable components can be interfaced with the City's FAMIS. The computer applications should include but not be limited to providing a list of delinquent accounts, printing aging reports, and reporting discrepancies between amounts credited to accounts receivable and the amount of cash deposited.*

Management Comment. *Management concurred with the recommendation and stated:* “The systems currently in place were selected by the operating departments and do not serve as adequate billing systems. The Department's goal will be to complete the evaluation and selection process for a new automated billing system during the current fiscal year, and be ready to begin implementation of the new system in Fiscal Year 05-06.” **Estimated completion date September 30, 2005.**

Recommendation 5. *Require the Treasurer to obtain monthly trial balances by account detail and generate aging schedules for Citywide*

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accounts receivable to assist in the assessment of the collectibility of past due accounts.

Management Comment. *Management concurred with the recommendation and stated:* “This recommendation is dependent upon new systems referenced in Recommendation 4.” **Estimated completion date September 30, 2005.**

Recommendation 6. *Establish an aggressive internal collection program for Citywide accounts, including mailing of statements, delinquency/dunning letters and/or making phone calls to accounts over 30 days past due.*

Management Comment. *Management concurred with the recommendation and stated:* “The new Treasurer will be charged with implementing revised procedures for Accounts Receivable and identifying the necessary resources to do so.” **Estimated completion date January 31, 2005.**

Recommendation 7. *Establish a written policy to provide the debtor with notice of late fees, penalties and interest charges on original bills and invoices, which will make the debtor aware, in advance, of what will happen if they fail to pay their obligation in a timely manner.*

Management Comment. *Management concurred with the recommendation and stated:* “The Finance Department concurs with this recommendation.” **Estimated completion date January 31, 2005.**

Recommendation 8. *Establish a written policy and procedures to establish a timeframe for when Citywide accounts are considered delinquent and either are forwarded to the collection agency or a lien will be timely filed/placed on properties for applicable accounts with fees unpaid/outstanding to aid in the recovery of outstanding receivables. This review of outstanding receivables should be made on a monthly basis.*

Management Comment. *Management concurred with the recommendation and stated:* “The Finance Department concurs with this recommendation.” **Estimated completion date January 31, 2005.**

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Recommendation 9. *Establish a written policy to define/determine when past due accounts, not covered specifically by statute and after all available efforts have been made, should be deemed uncollectible and written-off. Furthermore, designate authority and responsibility to write-off accounts (e.g., smaller amounts up to a \$500 limit - Treasury staff may handle; debts over \$500 require review and approval by the City Manager).*

Management Comment. *Management concurred with the recommendation and stated:* “The Finance Department concurs with this recommendation.” **Estimated completion date January 31, 2005.**

Recommendation 10. *Immediately develop an allowance for uncollectible accounts for fire inspection, miscellaneous receivables located in FAMIS, police and fire alarm accounts and implement standards and guidelines for writing off uncollectible accounts.*

Management Comment. *Management concurred with the recommendation and stated:* “The Finance Department concurs with this recommendation.” **Estimated completion date January 31, 2005.**

Recommendation 11. *Immediately require staff to prepare documentation to charge off accounts deemed uncollectible against an appropriate general ledger allowance account.*

Management Comment. *Management concurred with the recommendation and stated:* “The Finance Department will implement this recommendation by December 31, 2004.” **Estimated completion date December 31, 2004.**

FINDING 2

No actions were taken to investigate the basis for credit balances totaling \$2,352 for police and fire alarm accounts that were over one year old.

An evaluation of credit balances provides a basis for appropriate action to be taken in order to resolve account balances.

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Our analysis of 21 accounts with credit balances totaling \$2,952 for police and fire alarm accounts revealed 10 (48%) totaling \$1,002 were more than 1 year old and 5 (24%) totaling \$1,350, were more than 4 years old, as follows.

Alarm Account	Account No.	Credit Balance Amount	
		> 1 Year	> 4 Year
Fire	012114	(25.00)	
Fire	021993	(200.00)	
Fire	032899	(225.70)	
Fire	036763	(200.00)	
Fire	037262	(100.00)	
Fire	038557		(500.00)
Fire	036022		(650.00)
Police	007436		(50.00)
Police	043505	(50.00)	
Police	046959	(50.00)	
Police	013437		(100.00)
Police	025522	(0.80)	
Police	032857	(50.00)	
Police	034239		(50.00)
Police	041025	(100.00)	
Total		(\$1,001.50)	(\$1,350.00)

No policies and procedures are in place to guide staff on the proper handling of accounts with credit balances as a result of overpayments or incorrect posting of cash and periodic reviews to investigate credit balances remaining on the books indefinitely are not conducted.

Establishment of a policy and procedures to evaluate accounts with credit balances Citywide will help to detect and correct errors should they occur or refund amounts posted as overpayments.

RECOMMENDATION 12

The Director of Finance should develop and implement written policy and procedures to require periodic (e.g., quarterly) reviews of accounts receivable credit balances, including addressing receivables with very small balances. Results of review should be documented and a file maintained for audit purposes.

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MANAGEMENT COMMENT

Management concurred with the finding and recommendation and stated: “The Finance Department concurs with this recommendation.” Estimated completion date January 31, 2005.

FINDING 3

Access in the Encompass system to the payment and adjustment modules is not restricted to authorized officials only; users have the ability to access screens that allow them to perform account setup and maintenance, as well as make payments/adjustments.

Segregation of duties requires that individuals involved in the billing function should not be able to make adjustments to accounts. In addition, an individual with the ability to perform account set up should not be able to make adjustments to accounts.

Our analysis of security for users of the Encompass system revealed:

- 13 of 21 (62%) have the ability to perform account set up and maintenance and make payments and adjustments to accounts (**Schedule 3**). This does not provide for adequate segregation of duties.

No written policies and procedures exist to define and provide staff guidance as to levels of security access that should be observed for each work area (e.g., Police and Fire Alarms, Fire Inspection, and Treasury). Furthermore, security levels are not routinely reviewed and modified to restrict access to financial screens while ensuring adequate segregation of duties.

Restriction of access to payment and adjustment functions will enhance internal controls over the integrity of the data.

RECOMMENDATION 13

The Director of Finance, together with the Fire Chief and Chief of Police, should notify the Director of Information Systems to restrict access to the payment and adjustment modules in the Encompass system for alarm and

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fire safety (inspection) accounts to provide for adequate segregation of duties in order to provide for proper security controls.

MANAGEMENT COMMENT

Management concurred with the finding and recommendation and stated:

“The Finance Department has already begun discussions with Information Systems and other departments to determine the feasibility of making the needed changes as soon as possible. Initial discussions indicate that there may be technical, structural barriers inherent in the Encompass program that will make it difficult or impossible to “lock out” individual users from certain screens. This and other ways to approach this issue will be investigated, with a goal of reaching a decision by December 1, 2004.”

Estimated completion date December 1, 2004.

EVALUATION OF MANAGEMENT COMMENTS

Management comments provided and actions taken and/or planned are considered responsive to the recommendations.

**Accounts Receivable Aging
Days Outstanding as of February 2004**

Schedule 1

Type of Accounts Receivable	Date of Aging	0-30 Days	31-60 Days	61-90 Days	91-180 Days	181-365 Days	> 1 Year	> 4 Years	Totals	Total Encompass-based A/Rs
Police Alarm	2/6/04	\$ 150.00	\$ 19,424.20	\$ -	\$ 25,097.00	\$ 49,044.60	\$ 200,488.40	\$ 244,175.00	\$ 538,379.20	
Fire Alarm	2/10/04	9,600.00	0.00	0.00	6,700.00	16,000.00	39,300.00	17,900.00	89,500.00	
Fire Inspections	2/11/04	82,546.24	18,650.84	18,969.21	11,590.04	15,341.88	56,824.00	56,254.07	260,176.28	\$ 888,055.48
					91-120 Days	121-365 Days				
Misc.	2/9/04	364,833.09	24,086.99	41,657.95	18,861.25	118,563.42	6,047.46	-	574,050.16	
Grand Total		\$ 457,129.33	\$ 62,162.03	\$ 60,627.16	\$261,198.19		\$ 302,659.86	\$ 318,329.07	\$ 1,462,105.64	
<i>*Amount of receivables not showing in the City's Comprehensive Annual Financial Reports (CAFR), which includes Police and Fire Alarm and Fire Inspection accounts receivables located in the Encompass system.</i>										

**Penn Credit Collection Payments Accounts Receivables
February 2003 - January 2004**

Schedule 2

Penn Credit								Internal Collection Efforts				
Item #	Account #	Date Placed	Date Money Collected	Amount Paid Penn Credit	Amount Paid City	Amt. Due Penn Credit	Amt. Due City	Initial Bill Date	2nd Bill	Delinquent Bill	Final Notice Letter	Date Final Notice Letter Sent
Fire Inspection												
1	98070044	10/1/03	1/27/04	66.61	0.00	11.32	55.29	✓	✓	✓	✓	8/13/03
2	23037096	1/5/04	1/30/04	24.20	0.00	4.11	20.09	✓	✓	✓	✓	11/10/03
3	99080028	10/31/03	11/25/03	18.15	0.00	3.09	15.06	✓	✓	✓	✓	9/11/03
4	23200389	6/17/03	11/25/03	66.61	0.00	11.32	55.29	✓	✓	✓		
5	00020122	6/30/03	8/22/03	40.82	0.00	6.94	33.88	✓			✓	5/14/03
6	23039928	10/2/02	8/5/03	0.00	18.15	3.09	15.06	✓	✓		✓	9/13/02
7	23154347	7/16/02	8/5/03	0.00	40.82	6.94	33.88	✓	✓	✓	✓	7/29/02
8	23028293	6/30/03	7/9/03	24.20	0.00	4.11	20.09	✓	✓	✓		
9	03010026	6/30/03	7/16/03	51.70	0.00	8.79	42.91	✓	✓	✓	✓	5/14/03
10	23098593	6/30/03	7/14/03	0.00	40.82	6.94	33.88	✓	✓		✓	5/14/03
11	23157282	11/31/01	7/3/03	40.82	0.00	6.94	33.88	✓	✓	✓	✓	4/5/01
12	23174840		7/22/03	40.82	0.00	6.94	33.88	✓	✓	✓	✓	5/14/03
13	23018450		7/18/03	24.20	0.00	4.11	20.09	✓				
14	03030042		7/22/03	55.82	0.00	9.49	46.33					
15	23182314	6/30/03	7/22/03	40.82	0.00	6.94	33.88	✓			✓	5/14/03
16	96120005	10/2/02	6/13/03	95.82	0.00	16.29	79.53	✓	✓	✓	✓	8/12/02
17	23155591	6/17/03	6/25/03	40.82	0.00	6.94	33.88	✓	✓	✓		
18	23016298	12/30/02	5/12/03	24.20	0.00	4.11	20.09	✓	✓	✓	✓	11/14/02
19	23045495	3/31/03	4/18/03	66.61	0.00	11.32	55.29	✓	✓		✓	2/10/03
20	23111537	12/30/02	3/4/03	99.72	0.00	16.95	82.77	✓	✓	✓	✓	11/14/02
21	23103518	5/31/01	3/4/03	66.61	0.00	11.32	55.29	✓	✓	✓	✓	4/5/01
22	23185747	3/4/03	3/20/03	\$ 40.82	\$ -	\$ 6.94	\$ 33.88	✓	✓	✓	✓	1/10/03
Police/Fire Alarms												
23	033730	10/1/03	10/20/03	300.00	0.00	51.00	249.00	✓			✓	8/15/03
24	032149	10/1/03	10/20/03	675.00	0.00	114.75	560.25	✓			✓	8/15/03
25	026452	12/30/02	9/10/03	50.00	0.00	8.50	41.50	✓			✓	11/7/02
Miscellaneous A/R												
26	R0168	10/26/01	12/3/03	0.00	320.00	54.40	265.60	✓			✓	8/29/01
27	R0943	7/1/03	12/15/03	35.00	0.00	5.95	29.05	✓			✓	3/10/03
28	AR0201123	4/16/03	9/5/03	1,030.20	0.00	175.13	855.07	✓			✓	1/27/03
29	F0831	5/16/03	9/9/03	60.00	0.00	10.20	49.80	✓			✓	10/21/02
30	R0736	1/23/03	3/24/03	830.39	0.00	141.17	689.22	✓			✓	7/1/02
				\$3,909.96	\$419.79	\$736.04	\$3,593.71					
	Totals			\$4,329.75		\$4,329.75						

