

INTERNAL AUDIT REPORT

2019-05

Accounts Receivable

Finance Department

April 25, 2019

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

April 25, 2019

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2019-05, Accounts Receivable, Finance Department**. A brief summary of the report is presented below.

In accordance with the 2018 Audit Plan, we have completed an audit of Municipal accounts receivable. The objective of this audit was to determine the methodology, effectiveness, and accuracy of the Municipality of Anchorage's accounts receivable functions and systems. This audit was limited to general government and did not include enterprise activities. To accomplish our objective, we reviewed selected invoices from an SAP accounts receivable aging report dated August 15, 2018, and selected credit memos processed in 2017 and 2018. In addition, we also judgmentally selected and reviewed delinquent personal property tax accounts, based on age and dollar value. Moreover, we reviewed if adequate internal controls were in place for the stand-alone billing systems used by the various municipal agencies. Finally, we reviewed adequacy of the policies and procedures and desk procedures where available, and followed up on previous accounts receivable audit findings.

Our audit revealed that management of the Municipality of Anchorage's SAP accounts receivable could be improved. In addition, accounts receivable found in some stand-alone billing systems could be better managed and some stand-alone billing systems used by Municipal agencies were not approved by the Chief Fiscal Officer as required by Policy and Procedure 24-21, *Customer Setup, Billing, and Managing PeopleSoft Accounts Receivable*. Moreover, some accounts receivable were not recorded in the Municipality of Anchorage's general ledger and departments using the SAP accounts receivable billing system did not always process and submit billing paperwork as required by Policy and Procedure 24-21. Furthermore, Treasury did not always process invoices in accordance with the requirements of Policy and Procedure 24-21 and the Anchorage Fire Department did not bill for 2018 false alarms until January 2019. Additionally, Policy and Procedure 24-21 needs to be revised. Finally, delinquent personal property taxes were not managed as required by Operating Instruction 3-8, *Personal Property Tax Collection*.

There were nine findings in connection with this audit. Management was responsive to the findings and recommendations.

Michael Chadwick, CIA, CICA
Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

April 25, 2019

Internal Audit Report 2019-05
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Introduction. According to Anchorage Municipal Code (AMC), Title 6, the Chief Fiscal Officer (CFO) is responsible for billing, collecting, and writing-off of the Municipality of Anchorage's (Municipality) accounts receivable. The Municipality's financial system of record is SAP. SAP replaced PeopleSoft on October 2, 2017. Currently, the Treasury Division is responsible for SAP billing and revenue posting in the SAP Accounts Receivable (AR) module, real and personal property tax billings, and delinquent collections for Delinquent Criminal/Civil Fines and Fees (DCF). Seven departments utilize the SAP AR module for all, or part, of their billing for various services. These departments include: Anchorage Police Department (APD), Anchorage Fire Department (AFD), Finance Department, Planning Department, Parks and Recreation, Public Works Department, and Public Transportation Department. In addition, we also found stand-alone accounts receivable systems maintained by Anchorage Animal Care and Control; Anchorage Health Department's (AHD) Food Safety and Sanitation (FS&S) Program and Community Health Nursing Section; the Anchorage Public Library (Library); and Risk Management. During the audit, we identified the following types of accounts receivable and various billing systems:

- **SAP Accounts Receivable** – As of August 15, 2018, there was over \$1.4 million of Municipal general government accounts receivable in the SAP AR module.

**Miscellaneous SAP Accounts Receivable
 as of August 15, 2018**

<u>Aging</u>	<u>Amount</u>	<u>Number of Accounts</u>	<u>Percent of Accounts</u>
Current	\$ 743,154	211	31%
31-60 days	205,795	54	8%
61-90 days	163,412	40	6%
91-120 days	36,817	29	4%
121-365 days	254,645	292	43%
Over 365 days	<u>25,641</u>	<u>57</u>	<u>8%</u>
Totals:	<u>\$1,429,464</u>	<u>683</u>	<u>100%</u>

Source: Treasury staff and Auditor's analysis

- ***Real and Personal Property Tax Accounts Receivable*** – As of August 29, 2018, there was about \$39.5 million in property taxes accounts receivable ranging from year 2009 to 2018. According to Treasury Division staff, for real property taxes, if no payment is received during the year, foreclosure action will be taken after January 31st of the following year. For personal property taxes, delinquent accounts are referred to the Treasury Division’s in-house collectors for further collection action before they are referred to the collection agency.

**Real and Personal Property Taxes Receivable
 as of August 29, 2018**

<u>Year</u>	<u>Real Property</u>	<u>Personal Property</u>
2018	\$11,401,204	\$22,768,517
2017	2,712,977	829,586
2016	1,224,743	372,569
2015	83,445	58,477
2014	26,071	13,666
2013	9,465	68,256
2012	8,583	2,091
2011	10,928	1,463
2010	7,008	-
2009	<u>1,967</u>	=
Totals:	<u>\$15,486,391</u>	<u>\$24,114,625</u>

Source: Treasury staff and Auditor's analysis

- **Anchorage Animal Care and Control Accounts Receivable** – As of September 5, 2018, there was \$47,325 in accounts receivable. Accounts receivable are maintained on a stand-alone system by the Animal Care and Control Services' contractor.

**Animal Care and Control Accounts Receivable
 as of September 5, 2018**

<u>Aging</u>	<u>Amount</u>	<u>No. of Violations</u>	<u>Percent of Violations</u>
Current	\$ 3,400	19	10%
15-60 Days	20,025	79	40%
61-365 Days	22,400	95	48%
Over 1 Year	300	1	1%
Over 2 Years	<u>1,200</u>	<u>6</u>	<u>3%</u>
Totals:	<u>\$47,325</u>	<u>200</u>	<u>100%</u>

Source: Animal Care and Control Services' staff and Auditor's analysis

- ***Anchorage Health Department Accounts Receivable*** – Accounts receivable are maintained on two different stand-alone systems: Envision for the FS&S Program and Insight for the Community Health Nursing Section.

Food Safety and Sanitation Program Accounts Receivable – As of October 5, 2018, there was \$80,158 in the FS&S Program accounts receivable.

**AHD Food Safety & Sanitation Program Accounts Receivable
 as of October 5, 2018**

<u>Aging</u>	<u>Amount</u>	<u>Number of Invoices</u>	<u>Percent of Invoices</u>
91-120 Days	\$ 260	1	<1%
121-365 Days	13,733	27	11%
Over 365 Days	<u>66,165</u>	<u>212</u>	<u>88%</u>
Totals:	<u>\$80,158</u>	<u>240</u>	<u>100%</u>

Source: Food Safety & Sanitation Program staff and Auditor's analysis

Community Health Nursing Section Accounts Receivable – As of October 2, 2018, there was \$422,504 in Community Health Nursing Section accounts receivable, which included both open claims with insurances companies (including Medicaid, Medicare, Tricare and private insurance companies) and clients' copay.

**AHD Community Health Nursing Section
 Accounts Receivable
 as of October 2, 2018**

<u>Aging</u>	<u>Client</u>	<u>Insurance</u>	<u>Total</u>	<u>Percent of Total</u>
Current	\$ 7,793	\$ 45,281	\$ 53,074	13%
30 Days	5,168	42,808	47,976	11%
60 Days	4,705	20,268	24,973	6%
90 Days	1,560	21,231	22,791	5%
120 Days	11,942	23,522	35,464	8%
180 Days	36,973	64,991	101,965	24%
Over 1 Year	<u>95,790</u>	<u>40,472</u>	<u>136,261</u>	<u>32%</u>
Totals:	<u>\$163,931</u>	<u>\$258,573</u>	<u>\$422,504</u>	<u>100%</u>

Source: Community Health Nursing Section staff and Auditor's analysis

- **Risk Management Accounts Receivable** – As of August 31, 2018, there was \$411,570 in accounts receivable maintained on a stand-alone system. According to Risk Management staff, some of the accounts are on payment plans.

**Risk Management Department Accounts Receivable
 as of August 31, 2018**

<u>Year</u>	<u>Amount</u>	<u>Number of Claims</u>	<u>Percent of Claims</u>
2018	\$123,557	38	56%
2017	169,340	20	29%
2016	101,462	6	9%
2015	9,139	1	1%
2013	2,893	1	1%
2012	3,512	1	1%
2008	<u>1,667</u>	<u>1</u>	<u>1%</u>
Totals:	<u>\$411,570</u>	<u>68</u>	<u>100%</u>

Source: Risk Management staff and Auditor's analysis

- **Anchorage Public Library** – As of September 4, 2018, there was \$872,869 in accounts receivable maintained on a stand-alone system.

**Anchorage Public Library Accounts Receivable
 as of September 4, 2018**

<u>Aging</u>	<u>Amount</u>	<u>Number of Users</u>	<u>Percent of Users</u>
Current	\$ 55,151	6,105	6%
61-365 Days	403,750	25,527	26%
Over 1 Year	74,262	11,584	12%
Over 2 Years	102,853	12,878	13%
Over 3 Years	63,077	11,166	11%
Over 4 Years	63,544	11,591	12%
Over 5 Years	63,654	11,058	11%
Over 6 Years	46,166	8,541	9%
Over 7 Years	<u>412</u>	<u>61</u>	<u><1%</u>
Totals:	<u>\$872,869</u>	<u>98,511</u>	<u>100%</u>

Source: Library staff and Auditor's analysis

- **Anchorage Fire Department Area Wide Emergency Medical Services** – As of August 27, 2018, there was about \$4.1 million in emergency medical services (EMS) accounts receivable. Anchorage Fire Department provides EMS to all areas of the Municipality. Collection for ambulance services accounts receivable are contracted by AFD to Wittman Enterprises, LLC.

**AFD Area Wide Emergency Medical Services Accounts Receivable
 as of August 27, 2018**

<u>Aging</u>	<u>Amount</u>	<u>Percent of Amount</u>
Current	\$2,006,519	48%
31-60 Days	753,450	18%
61-90 Days	374,118	9%
91-120 Days	280,530	7%
121-180 Days	317,665	8%
Over 180 Days	<u>416,675</u>	<u>10%</u>
Totals:	<u>\$4,148,957</u>	<u>100%</u>

Source: Treasury staff and Auditor's analysis

- ***Delinquent Criminal/Civil Fines and Fees*** – As of August 2018, the DCF database contained about \$2.5 million of in-house accounts receivable. Treasury maintains the Municipality’s DCF database. These fees and fines are ordered by the Alaska Court System and the Municipal Administrative Hearing Officer and include items such as criminal fines, traffic citations and minor offense fines, cost of imprisonment fines, indigent defense fees, and Municipal code enforcement fines. Most of the fees and fines have been turned over to the Municipality by the Court System. Treasury Division DCF staff try to match these accounts with Permanent Fund Dividends (PFD) to facilitate payment and perform bank sweeps. However, sufficient PFD funds may not be available to pay the debt, since other organizations may also have claim on this money. Delinquent Criminal/Civil Fines and Fees are sent to collections if the account is non-responsive to a final demand letter and the individual is older than 18 years. Accounts are adjusted to \$0 and collection action ends if: 1) the account is older than ten years; 2) the account has no activity for three consecutive years; 3) the account has not been matched to the PFD for three consecutive years; 4) the debtor is deceased; 5) the debtor is in bankruptcy; or 6) the debtor is incarcerated.

The Municipality is dependent upon the collection of taxes and other revenue to provide services to its citizens. The Municipality is under pressure to maximize revenue and provide the highest level of service possible within budget constraints. To help accomplish this, an efficient collection system is required. This report discusses the management of the Municipality’s accounts receivable and efforts to collect on amounts owed. Management of receivables includes the methods and procedures adopted by departments to ensure that amounts owed are collected. It also encompasses systems for measuring, reporting, and monitoring performance.

The objective of any system of receivables management is to maximize collection of amounts due while minimizing bad debt losses. In some cases, write-offs of bad debts are necessary to provide financial managers with an accurate picture of the real value of outstanding accounts. Prudent business practice normally dictates that resources should not be wasted on accounts that have little or no chance of collection, or where the cost of collection clearly exceeds the value of the account. Effective receivable systems should contain most of the following elements:

- Prompt and accurate recording of amounts due and identification of debtors.
- Timely billing of outstanding accounts.
- Accounting systems that provide management with timely information.
- A well-conceived collection process.
- Use of commercial credit bureaus and collection agencies and litigation where potential gain exceeds the cost.
- Fair reporting of the value of outstanding accounts receivable, as well as recording and reporting information on collection effectiveness.
- Write-off of accounts that are clearly not collectible.

The Municipality's 2017 Comprehensive Annual Financial Report (CAFR) shows the Municipality with a \$33.3 million accounts receivable balance and a \$4.4 million allowance for uncollectible accounts. Because of these large balances, it is critical to have effective accounts receivable systems to maximize collection.

Objective and Scope. The objective of this audit was to determine the methodology, effectiveness, and accuracy of the Municipality's accounts receivable functions and systems. This audit was limited to general government and did not include enterprise activities. Our audit included a review of selected invoices from an SAP accounts receivable aging report dated August 15, 2018, and selected credit memos processed in 2017 and 2018. In addition, we also judgmentally selected and reviewed delinquent personal property tax accounts, based on age and dollar value. Moreover, we reviewed if adequate internal controls were in place for the stand-alone billing systems used by the various municipal agencies. Finally, we reviewed adequacy of the policies and procedures and desk procedures where available, and followed up on previous accounts receivable audit findings.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. 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. The audit was performed during the period of August through November 2018.

Overall Evaluation. Management of the Municipality's SAP accounts receivable could be improved. In addition, accounts receivable found in some stand-alone billing systems could be better managed and some stand-alone billing systems used by Municipal agencies were not approved by the CFO as required by Policy and Procedure (P&P) 24-21, *Customer Setup, Billing, and Managing PeopleSoft Account Receivable*. Moreover, some accounts receivable were not recorded in the Municipality's general ledger and departments using the SAP AR billing system did not always process and submit billing paperwork as required by P&P 24-21. Furthermore, Treasury did not always process invoices in accordance with the requirements of P&P 24-21 and the Anchorage Fire Department did not bill for 2018 false alarms until January 2019. Additionally, P&P 24-21 needs to be revised. Finally, delinquent personal property taxes were not managed as required by Operating Instruction (OI) 3-8, *Personal Property Tax Collection*.

FINDINGS AND RECOMMENDATIONS

1. **Management of Municipal Accounts Receivable Needs Improvement.**

- a. **Finding.** Management of the Municipality's SAP accounts receivable could be improved. Our review of these accounts receivable revealed that Treasury had not written-off delinquent accounts receivables since SAP was implemented in October 2017 due to SAP limitations. As a result, as of August 2018, accounts receivable over 90 days totaling \$317,103 (55%) were not written-off for collections as required by P&P 24-21. Policy and Procedure 24-21 requires that delinquent accounts receivable be recommended to Treasury for write-off ". . . no sooner than 90 days and no later than 120 days past due." Delinquent accounts receivables should be written-off to reflect a more realistic view of collectability.

Moreover, according to Treasury Division staff, late fees were not assessed for accounts receivables since SAP was implemented in October 2017. Anchorage Municipal Code subsection 6.70.030B states that “A late payment penalty of \$25.00 shall be due and payable on the forty-fifth day following the original invoice date for miscellaneous accounts receivable. The account receivable shall continue to accrue a late payment penalty of \$25.00 per month for each additional thirty-day period in which the invoice is past due or not fully paid, up to a maximum penalty of \$250.00.” After our inquiry regarding the late fee not being assessed, Treasury started assessing late fees in October 2018 but is still struggling due to SAP system limitations. Late fees were not assessed from October 2017 to October 2018.

b. **Recommendation.** The Municipal Treasurer should ensure that accounts receivable be written off in a timely manner as required by P&P 24-21 and late fee penalties assessed as required by AMC subsection 6.70.030B.

c. **Management Comments.** Management stated, “We concur with the finding. Treasury is currently working with the Municipality IT Department developing a SAP accounts receivable aging report to properly track accounts that need written off. In addition, all 2017 and first quarter 2018 unpaid customer accounts are compiled to transmit to the Municipality’s collection agency and working on a way to show the write-off in the customer’s account. Treasury is actively working on bringing accounts receivable up-to-date in SAP.

“Treasury is currently assessing late fees per Municipal Code subsection 6.70.030B, but has chosen to not go back and assess late fees for prior periods.”

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Accounts Receivable in Stand-Alone Billing Systems Not Effectively Managed.**

a. **Finding.** Accounts receivable found in some stand-alone billing systems could be better managed. Specifically, we found the following:

- ***Animal Care and Control Services*** – There were six violations in 2015 totaling \$1,200 that were not referred to the collection agency. According to ACCS staff, these accounts were not sent to the collection agency because, the accounts “. . . were somehow missed to refer to collections.”
- ***Anchorage Health Department*** – Anchorage Health Department’s FS&S Program did not properly manage and/or actively pursue the collection of accounts receivable. Specifically, although FS&S Program’s Envision system aged the accounts receivable and provided an accounts receivable aging report, FS&S Program staff did not use it. As a result, 212 of 240 (88%) of FS&S Program’s invoices totaling \$66,165 were 1 to 12 years past due and the remaining 28 (12%) totaling \$13,993 were over 90 days past due. We did not find any evidence that FS&S Program staff tried to collect these accounts receivable or write-off delinquent accounts receivable and send them to the collection agency. Food Safety and Sanitation Program P&P 2560-1 states that “Accounts with outstanding late fees or citations are turned into collections after 30 days.” It further states, “The FS&S Supervisor reviews all clients that have unpaid late fee’s [sic] or citations in the fall and reviews with the Public Health Division Manager.”

In addition, we found that AHD’s Community Health Nursing Section did not send its delinquent accounts receivable to the collection agency. According to staff, they did not send these delinquent accounts receivable to the collection agency because they did not want to create a barrier to their services. Instead, according to staff, they wrote-off these delinquent accounts after three years of inactivity without the CFO’s approval or written policy. According to staff, in

2017, they wrote off \$20,331 and, in 2018, they wrote off \$13,569. As of October 2018, individual clients owed \$163,932, and \$146,265 (89%) of the balance was over 90 days old. Similar findings were reported in the Internal Audit Reports 2010-08, 2011-13, and 2013-05.

- ***Anchorage Public Library*** – Delinquent accounts receivable are referred to the collection agency after 60 days past due, only if the delinquent accounts receivable was due to damaged or lost items over \$100, along with associated fines and fees. Other delinquent accounts receivable, such as late fees and fines, stay in-house and continue to remain on the Library’s billing system for seven years. According to Library management, these accounts are written-off after seven years of inactivity, without the CFO’s approval. As of September 2018, the Library had an outstanding accounts receivable balance of \$872,868, and \$817,718 (94%) of this balance was over 60 days old. Moreover, some of the delinquent accounts receivables are older than seven years because the automatic write-off process did not work from February 2017 to December 2018.

Although the Library had a collection procedure, it was not developed in conjunction with the Finance Department, as required by P&P 24-21. Policy and Procedure 24-21 states that “. . . Where individual or departmental circumstances require it, managers may develop supplemental instructions in conjunction with the Finance Department to provide a more specific degree of control. A copy of the supplemental instructions must be sent to the Finance Department for review prior to their implementation.”

- b. **Recommendation.** The Chief Fiscal Officer should enforce the requirements of P&P 24-21 and should meet with departments having stand-alone billing system to provide further advice and guidance regarding procedures.

- c. **Management Comments.** Management stated, “We concur with this finding and have taken the following steps. The CFO has met with each Department Director that has a stand-alone A/R system to give guidance on policy, procedures and maintenance of accounts as they apply to each stand-alone system. We have asked that updated procedures be drafted and implemented by May 31, 2019. Treasury has submitted a revised P&P 24-21 and expects approval by the Mayor by May 31, 2019.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Some Stand-Alone Billing Systems Not Approved.**

- a. **Finding.** Some stand-alone billing systems used by Municipal agencies were not approved by the CFO as required by P&P 24-21. Specifically, we found no evidence of documented approval by the CFO for the Library’s Sirsi system, and for Risk Management’s FileMaker database. Policy and Procedure 24-21 states that “. . . No other billing system shall be used by a Municipal department for billing miscellaneous accounts receivable unless prior written authorization is obtained from the Chief Fiscal Officer and a copy of that authorization has been provided to the Controller and Treasurer.”
- b. **Recommendation.** The Chief Fiscal Officer should ensure departments with stand-alone billing systems comply with the approval requirements of P&P 24-21.
- c. **Management Comments.** Management stated, “We concur with this finding. The CFO has reached out to the Library, the Health Department and Risk Management to have them create an exception request document to be reviewed and approved by the CFO. We expect this to be complete by April 30, 2019.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Accounts Receivable Not Recorded in General Ledger.**

- a. **Finding.** Some accounts receivable were not recorded in the Municipality's general ledger. Specifically, we found the following accounts receivable that were not recorded in the general ledger:

- Anchorage Public Library – nearly \$873,000
- Anchorage Health Department FS&S Program – over \$80,000

Since these accounts receivables were not recorded in the general ledger, they were not reported in the Municipality's CAFR. Anchorage Municipal Code section 6.60.010 states that "The controller, under the direction of the chief fiscal officer, shall maintain the journal and ledger accounts for all departments and offices of the municipality. Such accounts shall reflect the detailed and summarized financial transactions of the municipality." One reason these accounts receivable have not been reported in the Municipality's general ledger is because they are maintained on a variety of different stand-alone systems independent of SAP. A similar finding was reported in the Internal Audit Report 2003-9.

- b. **Recommendation.** The Chief Fiscal Officer should require that all accounts receivables are maintained as required by AMC section 6.60.010, and are included in the Municipality's financial reports.

- c. **Management Comments.** Management stated, "We concur with this finding. The CFO and Treasury has met with the Library Director and the Health Department Food Safety Program Manager to develop a process that ensures accounts receivable aging are provided at least annually for year-end report processing to the Controller's

Division for entry into the general ledger and for reporting purposes. We expect to have these updated procedures in place by May 31, 2019.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Departments Did Not Always Process Invoices as Required by P&P 24-21.**

- a. **Finding.** Departments using the SAP AR billing system did not always process and submit billing paperwork as required by P&P 24-21. Specifically, our review of 51 sample invoices revealed that 15 (29%) were processed 6 to 34 business days after the date of service. Policy and Procedure 24-21 states each business unit shall, “Ensure that . . . transactions billed to customers on account are accurately documented and recorded in its . . . system no later than 5 (five) business days after the transaction has occurred.” In addition, six (12%) invoices did not meet the requirements of P&P 24-21 because they were generated for multiple transactions. P&P 24-21 requires one original invoice generated for each transaction on account.
- b. **Recommendation.** The Municipal Treasurer should ensure that Municipal departments follow the processing requirements found in P&P 24-21.
- c. **Management Comments.** Management stated, “We concur with the finding. Going forward, Treasury will periodically monitor and communicate with departments as needed to ensure outgoing invoices are generated, recorded and mailed within five business days after the transaction occurs. All departments are expected to meet P&P standards, unless the department has submitted an exception request to CFO.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Treasury Did Not Always Process Invoices as Required by P&P 24-21.**

a. **Finding.** Treasury did not always process invoices in accordance with the requirements of P&P 24-21. Specifically, our review of 51 sample invoices revealed the following:

- Twelve (24%) invoices were sent 8 to 18 business days after their receipt from departments. Policy and Procedure 24-21 requires that original invoices should be mailed no less than weekly.
- Six (12%) invoices were processed with incomplete billing information, such as missing name and phone number of the department billing specialist and description of services performed. Policy and Procedure 24-21 states that “Proper invoicing means complete and accurate billing information including, but not necessarily limited to . . . sufficient description of services performed; . . . name and phone number of department Billing Specialist to call if the customer has questions”
- Four (8%) invoices were given 22-day payment terms instead of the required 30 days due to SAP system issues. Policy and Procedure 24-21 states that “. . . The Municipal standard for payment terms of transactions billed through the PSAR system is 30 days after the date of the invoice”

In addition, Treasury did not timely process returned mail. Specifically, we found 72 returned mail items, including invoices and statements from July 2018 to October 2018 that were not forwarded to respective departments to identify the correct mailing address. According to Treasury Division staff, they stopped sending the returned mail to the departments because they believed no one was following up on them. Staff also stated the accounts will eventually be referred to collections. According to P&P 24-21, each department head shall, “ensure that PSAR invoices or PSAR statements

received as returned mail are investigated within 5 business days to identify . . . , re-mail . . . , and forward the correct address to the Controller Division”

- b. **Recommendation.** The Municipal Treasurer should ensure that billing processes comply with the requirements of P&P 24-21.
- c. **Management Comments.** Management stated, “We concur with the finding. Moving forward, Treasury will ensure invoices are mailed on a weekly basis. Treasury is currently working with IT to resolve both invoice template and payment terms issues, which have been problematic since SAP go-live. The SAP invoicing issues are almost completely resolved. Treasury will work diligently to gather correct mailing addresses for returned mail by researching appropriate websites, and reaching out to other agencies that may have customer’s correct address.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **Fire False Alarm Not Billed Timely.**

- a. **Finding.** The Anchorage Fire Department did not bill for 2018 false alarms until January 2019. The total 2018 billable amount was \$71,500. As of February 26, 2019, nothing for 2019 had yet been billed. According to AFD staff, the services were not timely billed due to staff workloads. Policy and Procedure 24-21 states that each business unit shall, “Ensure that . . . transactions billed to customers on account are accurately documented and recorded in its . . . system no later than 5 (five) business days after the transaction has occurred.”
- b. **Recommendation.** The AFD management should ensure that fire false alarm billings are properly processed as required by P&P 24-21.

c. **Management Comments.** Management stated,

“1.) We concur with the audit findings that the 2018 false alarms bills were not completed until January 2019. That as of February 26, 2019 nothing for 2019 had yet been billed. The services were not timely billed due to staff workloads.

“2.) There are a couple of actions that AFD will take to correct these deficiencies.

“a. First while we submitted a request for an exemption to MOA P&P 24-21 in April of 2016 we cannot locate an approved copy of the request. On March 27, 2019 a request was submitted for an exemption to MOA P&P 24-21 that would allow for monthly billing of false alarm fees. This will allow for incident reports to be completed, staff to pull reports, identify those for which fines apply, process and submit an invoice to customers in a timely and accurate manner. We expect to receive either an approval or denial by April 5, 2019.

“b. AFD will be transitioning the billing function for false alarms from our Statistician to our Admin Services Associates. It was a function of the Statistician as they were the one with access to pull the reports identifying the false alarms. The Admin Services Associates will be given access to pull reports, trained on how to pull the reports, identify which runs the false alarm fees apply to and then input the fees into SAP to cut an invoice to the customer. All billing will be current and up-to-date before this transition. This transition will be completed by April 30, 2019.

“c. With the approval of the exemption the process would then be to process false alarms twice a month. This would ensure that the customers receive an invoice for the false alarm fee within 30 days of the incident. This transition will place the responsibility on the Finance Officer to ensure the deadlines are met.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

8. **Policy and Procedure 24-21 Needs Revision.**

- a. **Finding.** Policy and Procedure 24-21 needs to be revised. It was last updated in April 2003. As a result of the Municipality's implementation of SAP in October 2017, billing processes have changed. For example, P&P 24-21 requires each department to submit a bill for collection request form to the Treasury Division to bill an existing customer account. With the implementation of SAP, this practice is no longer required. Instead, billing input for SAP accounts receivable is now decentralized at the department level. Billing information is entered directly into the SAP Accounts Receivable module by the department billing specialist, routed through the department supervisor, and then sent to a Treasury billing specialist for final approval.

In addition, the Finance Department did not have established written procedures for processing credit memos for SAP accounts receivable, including requirements for supporting documentation and a timeline for processing credit memos. For example, 16 of 29 credit memos we tested lacked supporting documentation. Timely clearing of credit memos helps accounts age properly and reduces the risk of overstating accounts receivable. Written procedures addressing the responsibilities for processing and proper documentation for credit memos are necessary to provide guidance, oversight and accountability.

- b. **Recommendation.** The Chief Fiscal Officer should ensure accounts receivable policies and procedures are accurate, complete and current at all times.
- c. **Management Comments.** Management stated, "We concur with this finding. Policy and Procedure 24-21: Customer Setup, Billing and Managing Accounts Receivable has been updated, signed by the CFO and a Request for Legal Services packet sent to

Legal Services as of March 8, 2019. We expect to have this signed by the Mayor prior to May 31, 2019.

“We would note that Credit Memos are not normally processed in SAP. Instead, a credit adjustment is made to the customer account if an error was made in billing. This usually is regarding late fees, which is covered under the recently updated DOI: Accounts Receivable Late Payment Penalties are reviewed and approved by the Accounts Receivable Supervisor.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

9. **Documented Delinquent Personal Property Taxes Collection Practices Need Updating.**

- a. **Finding.** Delinquent personal property taxes were not managed as required by OI 3-8. We judgmentally selected ten accounts based on age and dollar amount with a total delinquent balance of \$244,254 and found the following deficiencies:

- ***Accounts Not Always Referred to Legal or Small Claims Court*** – Delinquent personal property tax accounts were not always referred to the Municipality’s Legal Department or small claims court. Specifically, we found five of ten accounts that each owed over \$5,000 in taxes and were not referred to Legal when the taxpayer failed to respond to collection letters. According to OI 3-8, “If the account is greater than \$5,000 and the taxpayer is within the Anchorage Judicial District, and the taxpayer has not responded . . . the account will be referred to attorneys for litigation efforts. . . .” Similarly, Treasury Division staff kept accounts less than \$5,000 for in-house collection and did not refer them to small claims court after becoming delinquent. According to OI 3-8, accounts owing between \$250 and \$5,000 should be referred to small claims court.

- ***Inconsistent Collection Practices*** – Treasury Division staff did not always pursue collection activities for delinquent property taxes at the prescribed follow-up interval of every 15 days, as stated in OI 3-8 for account balances over \$500. For example, nine of ten accounts tested had balances ranging from \$584 to \$42,400 with inconsistent collection activity intervals between 1 to 203 days. Not following the requirements of OI 3-8 reduces the likelihood of collecting the debt in a timely and efficient manner.
- ***Other Inconsistencies*** – The following table summarizes other inconsistencies between Treasury Division’s current practices and the requirements of OI 3-8:

Operating Instructions - Personal Property Tax Collections		
<u>Criteria</u>	<u>Required in OI 3-8</u>	<u>Current Practices</u>
Write-Off Uncollectible	\$10 or less with no resolution	\$25 or less with no resolution
Collection activity:		
1st contact within 90 days w/intervals of 30 days follow-up	>\$10 and <\$50	>\$25 and <\$300
1st contact within 60 days w/intervals of 30 days follow-up	>50 and <\$500	>\$300 and <\$1,000
1st contact within 30 days w/intervals of 15 days follow-up	>\$500	>\$1,000
Referral to Collection Agency:		
Unable to locate	>\$250 outside Municipality with no resolution >\$10	>\$10,000 outside Municipality with no resolution >\$25
Source: Auditor analysis of OI 3-8 and Treasury current practices		

- b. **Recommendation.** The Municipal Treasurer should ensure that OI 3-8 is updated.

- c. **Management Comments.** Management stated, “We concur with the finding. Treasury Department Operating Procedure 3-8: Personal Property Tax Collection Operating Instructions has been recently updated to reflect current procedures.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

OTHER PERTINENT INFORMATION

Since 2014, delinquent accounts receivable are sent for collection to MSB, a collection agency contracted by the Municipality. The Municipal Services Bureau’s gross collection rate has diminished since they became the sole collection agency in 2014 for current accounts receivable. For example, the collection rate dropped from 36% in 2015 to 23% in 2016. The collection rate dropped again in 2018 to 4%. While conducting our audit work we noted that the contract with MSB had expired on March 31, 2016. On June 12, 2018, the contract was retroactively extended through September 30, 2018. The contract extension ended September 30, 2018. According to Treasury Division management, a new contractor has been selected and accounts are being transitioned to the new contractor.

In addition, Cornerstone Credit Services, LLC provides collection services for delinquent accounts prior to 2014 that were in litigation or in payment plan agreements. The contract between the Municipality and Cornerstone Credit Services, LLC expired on June 23, 2017, and was not renewed. When we followed up in December 2018 for an updated contract, Treasury Division management stated they were negotiating for a contract extension.

Delinquent accounts sent to a collection agency are written-off and not included in the CAFR’s accounts receivable totals. Therefore, these accounts were not included in this audit since we were not auditing the Municipality’s collection contractors.

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Accounts Receivable
Finance Department
April 25, 2019

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on February 28, 2019, and March 7, 2019.

Audit Staff:
Dechen Dechen, CFE