



CITY AUDITOR'S OFFICE

Accounts Receivable Management

June 18, 2014

AUDIT REPORT NO. 1410

CITY COUNCIL

Mayor W.J. "Jim" Lane
Suzanne Klapp
Virginia Korte
Robert Littlefield
Linda Milhaven
Vice Mayor Guy Phillips
Dennis Robbins



June 18, 2014

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Accounts Receivable Management*, which was included on the Council-approved FY 2013/14 Audit Plan.

The City Charter establishes the City Treasurer as the chief financial officer, responsible for receiving, recording and safeguarding the City's finances. Further, the City Treasurer's office provides several services to help manage the City's revenues and receivables, including accounting, remittance processing and revenue recovery among others.

Some departments manage their own accounts receivable. This audit found that the Library has written off and waived substantial amounts of fees during the past four years for which collection efforts were not documented. In addition, the City Treasurer's office has not issued policy guidance for City staff on how to manage accounts receivable, including appropriate controls, recordkeeping and collection efforts for amounts owed to the City. Most areas of the City do not have experienced collections staff or written guidance on collection procedures, including write-offs. As well, application access controls can be strengthened.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE
City Auditor

Audit Team:

Cathleen Davis, CIA - Senior Auditor
Dan Spencer, CIA - Senior Auditor

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EXECUTIVE SUMMARY

This audit of *Accounts Receivable Management* was included on the Council-approved FY 2013/14 Audit Plan. The objective was to review internal controls over the City's management of receivables, including billing, collection and write-off of fines, fees and other balances.

The City Charter establishes the City Treasurer as the chief financial officer, responsible for receiving, recording and safeguarding the City's finances. Furthermore, the City Treasurer's office provides several services to help manage the City's revenues and receivables, including accounting, remittance processing and revenue recovery among others. As of June 30, 2013, the City's FY 2012/13 audited Comprehensive Annual Financial Report shows Scottsdale had approximately \$97 million in receivables. These receivables included revenues collected by other governments, such as property taxes and state shared revenues, and revenues collected directly by the City, such as utility payments and privilege tax.

Our audit found that the Library has written off and waived fees totaling more than \$500,000 during the past four years for which collection efforts were not documented. While the Library manages its own receivable accounts, the department does not have detailed written guidance on how receivables should be managed. Upon write-off, the detailed records were purged from the Library's records management system and limited data was retained in spreadsheets. Auditors used these spreadsheets and data provided by the Library's collection agency to determine collection efforts made. About \$308,000 written off during these four fiscal years was not referred to the collection agency. Also during this four year period, Library staff waived fines and fees totaling about \$240,000 without supporting documentation.

In addition, the City Treasurer's office has not issued policy guidance for City staff on how to manage accounts receivable, including appropriate controls, recordkeeping and collection efforts for amounts owed to the City. As a result, some accounts receivable are not recorded in the City's accounting records until customer payments are received. Additionally, most City departments do not have experienced collections staff and or written guidance on collection procedures, including write-offs. Further, the City does not match payments being made to vendors against delinquent balances due to the City.

Finally, certain user and system access controls can be strengthened by ensuring key functions are segregated and limiting access based on regular job duties.

BACKGROUND

The City's FY 2012/13 audited Comprehensive Annual Financial Report (CAFR) shows Scottsdale was owed approximately \$97 million as of June 30, 2013. Table 1 summarizes the City's receivables for the last five years in two major categories - those receivables related to revenues from other governments and those collected directly by City departments.

Table 1. Five Year History of Accounts Receivable by Type

	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13
Receivables collected by other governments for Scottsdale:					
Property Tax	\$ 2,537,361	3,070,231	3,468,396	2,553,192	2,311,219
Intergovernmental	29,560,861	30,865,627	36,249,751	29,865,536	34,166,312
	32,098,222	33,935,858	39,718,147	32,418,728	36,477,531
Receivables directly collected by Scottsdale:					
City Court*	10,043,151	10,374,426	10,380,796	10,459,378	9,562,453
Libraries*	-	870,566	251,655	186,482	157,173
Privilege Tax	10,699,374	11,895,055	17,205,155	18,447,826	18,202,394
Transient Occup Tax	366,474	823,154	642,135	660,005	702,513
Utilities*	7,857,282	7,727,462	8,491,809	9,567,445	10,403,114
Interest	2,659,676	1,571,797	530,406	803,242	1,320,185
Tax Audit	4,525,784	4,440,253	-	-	-
Franchise Fee	2,786,044	1,748,148	1,754,086	1,991,071	2,024,767
Miscellaneous	16,838,520	18,679,854	18,490,814	17,011,254	18,196,764
	55,776,305	58,130,715	57,746,856	59,126,703	60,569,363
Total	\$87,874,527	92,066,573	97,465,003	91,545,431	97,046,894

* - Receivables are reported net of allowance for doubtful accounts.

SOURCE: Auditor analysis of General Ledger trial balances and CAFRs.

The receivables related to revenues collected by other governments, such as property taxes and state shared revenues, largely reflect timing differences. These revenues are for a given fiscal year, but received generally within 60 days after year end. Therefore, this audit focused on the \$55 - 60 million in receivables that are directly collected by the City.

Compared to other Valley cities, Scottsdale's receivables are third highest in proportion to the related revenues, as shown in Table 2.

Table 2. Valley Cities Receivables

	Receivables	Revenues	Receivables as a % of Revenues
Glendale, FY 2012/13	108,582,300	389,576,000	27.9%
Tempe, FY 2012/13	96,988,990	385,470,079	25.2%
Scottsdale, FY 2012/13	97,047,000	622,401,000	15.6%
Phoenix, FY 2012/13	477,665,000	3,344,209,000	14.3%
Gilbert, FY 2012/13	41,001,641	315,885,442	13.0%
Mesa, FY 2011/12	90,647,143	724,618,000	12.5%
Peoria, FY 2012/13	22,784,448	255,000,000	8.9%
Chandler, FY 2012/13	37,710,923	476,516,970	7.9%

SOURCE: Auditor analysis of Comprehensive Annual Financial Reports, fiscal year as listed, available on each city's website.

Managing Accounts Receivable

The City Charter establishes the City Treasurer as the chief financial officer, responsible for receiving, recording and safeguarding the City's finances. City Code more specifically defines the office's responsibilities. Among them are responsibilities related to monies due to the City:

- preparation, approval and disbursement of all bills;
- execution of any installment agreement to collect obligations; and
- collection of all licensing fees, tax assessments and funds owed to the City.

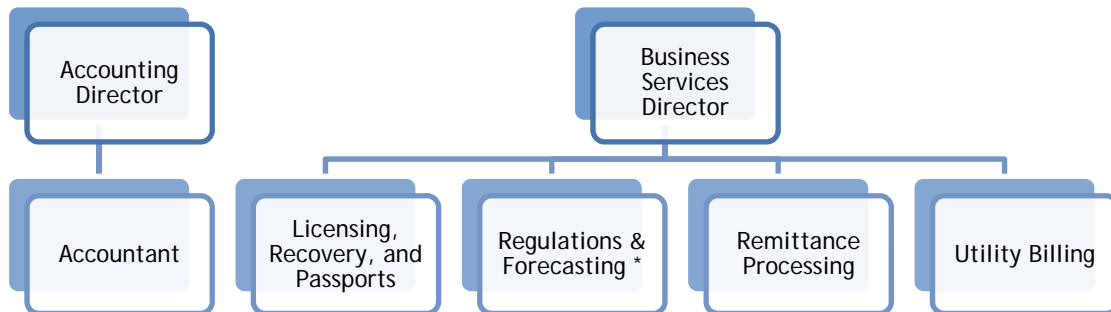
Among its internal financial functions, the City Treasurer's office provides several services to help manage the City's revenues and receivables. These include accounting, tax licensing, revenue recovery (collections), tax audits, license inspections, remittance processing and utility billing. These are illustrated in Figure 1 on page 5.

Scottsdale City Charter

The city treasurer shall be the chief financial officer of the city, shall receive and have custody of all the money of the city and shall keep and save said money and dispense the same only as provided by law, and shall prepare the official financial and accounting records of the city.

Source: Article 3 §4

Figure 1. City Treasurer's Receivables Related Functions



* - Regulations & Forecasting comprises Tax Audit and License Inspectors.

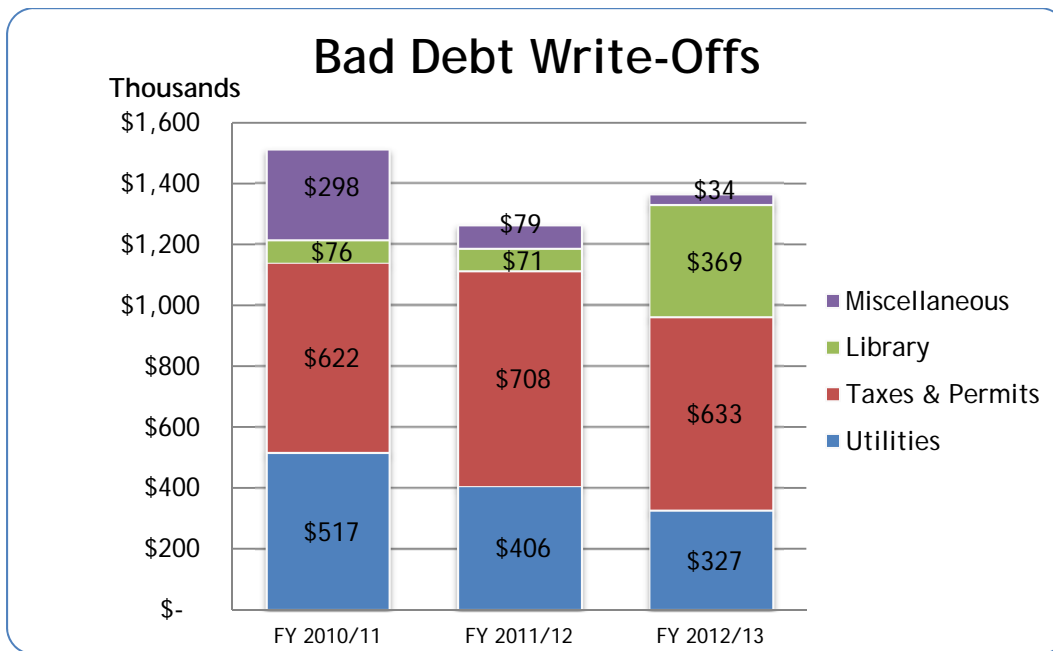
SOURCE: Auditor analysis of City Treasurer's organization.

While more than half of receivables are billed and collected by the City Treasurer's office, others are still handled in a decentralized fashion at the department level. As various departments throughout the City provide public services, such as swim lessons and fire safety inspections, they make the initial transaction records of amounts owed and collected. Many City services require upfront payment, but others allow payment after the service has been provided. In some instances, these receivables are billed through Accounting, in others, the department generates a billing. For example, the largest City receivables billed by other departments occur within the City Court and the Library.

In preparing the City's year-end Comprehensive Annual Financial Report, Accounting gathers data from the departments on the amount of bad debt that they are managing that needs to be written off. The FY 2012/13 analysis, summarized in Figure 2 on page 6, found that Library write-offs represented the largest as a percentage of the related revenues and the second largest amount written off overall.

(continued on next page)

Figure 2. Bad Debt Write-Offs by Type, FYs 2010/11 - 2012/13



Detailed Analysis of FY 2012/13 Write-Offs:

	Number of Accounts	FY 2012/13 Write-Offs	Related Revenues	Write-Off % of Revenue
Utilities	1,380	\$ 326,773	\$151,208,026	0.22%
Taxes	32	633,475	112,828,362	0.56%
Library	12,099	* 369,368	286,944	128.72%
Miscellaneous	56	33,813	15,043,016	0.22%
Total	13,567	\$1,363,429	\$279,366,348	0.49%

* - Library staff indicated the amount written off in FY 2012/13 included old accounts from previous years.

SOURCE: Revenue Recovery analysis of bad debt write-offs.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of Accounts Receivable Management was included on the City Council-approved fiscal year (FY) 2013/14 Audit Plan. The audit objective was to review internal controls over the City's management of receivables, including billing, collection and write-off of fines, fees and other balances.

To gain an understanding of the City's accounts receivable functions, policies and practices, we interviewed City Treasurer's Office personnel, including the Accounting Director, an Accountant, the Financial Services Technology Director, a Systems Integrator, the Business Services Director, a Business Services Manager and a Senior Revenue Collector. In addition, we interviewed city personnel from the City Court, Community Services, Public Safety, Public Works, Water Resources, Aviation, Human Resources, Planning & Development and WestWorld.

We reviewed related audit reports issued by this office including *Collection of Development and Permit Fees* - Audit Report No. 0803 issued in January 2009, *Collection of Delinquent Funds* - Audit Report No. 0906 issued in May 2009 and others with accounts receivable-related findings. In addition, we reviewed related audit reports recently completed by other auditors.

To gain an understanding of existing controls and practices, we reviewed the following authoritative policies and related documentation:

- City Charter, Article 3: Officers of the City, Section 4. City Treasurer
- City Code, including relevant sections within Chapter 2 - Administration, Chapter 9 - City Court, Chapter 20 - Parks, Recreation and Cultural Affairs, and Appendix C - Privilege and Excise Tax
- Scottsdale's Comprehensive Financial Policies & Governing Guidance
- Scottsdale's Comprehensive Annual Financial Reports and the Governmental Accounting Standards Board's (GASB) Statement No. 34 Basic Financial Statements for State and Local Governments.
- Accounting's accounts receivable procedures, draft Administrative Regulation titled *Miscellaneous Accounts Receivable*, Citywide write-off process and related documents and forms.
- Accounts receivable financial reports from the SmartStream accounting system maintained by the City Treasurer's Office and other departmental systems when applicable.

To evaluate controls over the City's management of receivables, we:

- Compared revenue and receivable accounts in SmartStream to identify other potential receipts that should be managed as receivables.
- Reviewed the FY 2013/14 rates and fees schedules, the proposed FY 2014/15 rates and fees schedules and various departmental activities on the City's website to identify potential sources of receivables.

- Observed Accounting staff recording an individual receivable in SmartStream, then generating the billing statement. Reviewed the System Integrator's procedure for batch processing certain receivables into SmartStream.
- Determined which Divisions/Departments have used the Business Services Department's revenue recovery services for assistance with collecting delinquent accounts. Interviewed other departments to determine their collection processes.
- Examined the FY 2012/13 citywide write-off process including timeliness, documentation of collection activity and Division/Department director approval.
- Reviewed the FY 2012/13 allowance for doubtful accounts methodology and calculations for the City Court, Library and Utilities and evaluated the sufficiency of the City's reported uncollectible amounts.
- Compared the City's receivables to revenues percentage to the percentages of other municipalities in the Phoenix-area including Phoenix, Chandler, Gilbert, Glendale, Mesa, Peoria and Tempe.
- Evaluated user access to the accounts receivable module in SmartStream to determine if system access rights enforce appropriate segregation of duties and user access is in accordance with the least privilege principle.

Our audit found that the Library has written off and waived fees totaling more than \$500,000 during the past four years without documented collection efforts. Also, some accounts receivable are not recorded in the City's accounting records until the customer payments are received. Currently, the City Treasurer's office has not issued policy guidance for City staff on how to manage accounts receivable, including appropriate controls, recordkeeping and collection efforts, for amounts owed to the City. Finally, certain user access controls to the SmartStream accounts receivable module can be strengthened.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code §2-117 et seq. 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. Audit work took place from March to June 2014.

FINDINGS AND ANALYSIS

1. The Library has written off and waived more than \$500,000 in fees during the past four years without documented collection efforts.

The Library manages its own fines and fees receivable accounts and uses its own collection agency contract. At fiscal year-end, Library management reports to the City Treasurer's office the amount of its account balances, which total approximately \$1.6 million to \$1.9 million, considered bad debts for write-off. However, the Library does not have a detailed written policy on how these receivables will be managed or retain documentation of collection efforts for the written-off accounts. In addition, documentation is not required for waived amounts.

As summarized in Table 3, \$683,000 in write-offs in addition to \$240,000 of waived fines and fees, brought the total Library receivables not collected during the four year period to approximately \$923,000. Library staff indicated after the year-end bad debt write-off, they purge these accounts from the library management system by permanently deleting the records.

Table 3. Summary of Library Waivers and Write-Offs, 4 Fiscal Years

Fiscal Year	Fines Waived	Write-Offs	Total Receivables Not Collected
2009/10	\$ 99,949	166,637	\$ 266,586
2010/11	69,359	75,808	145,167
2011/12	39,771	71,099	110,870
2012/13	30,682	* 369,368	400,050
	\$239,761	682,912	\$922,673

* - Library staff indicated this amount included old accounts from previous years.

Source: Auditor analysis of Library reports to Accounting for bad debt write-offs.

A. In FY 2012/13, the Library reported more than \$369,000 as bad debts to be written off; the largest account totaled \$5,769. In contrast, Library-requested bad debt write-offs during the three prior fiscal years together totaled approximately \$313,000 with the highest individual balance \$235.

- More than \$359,000 of the \$369,000 Library referred for write-off in FY 2012/13 was identified as "not at collections or credit reported." However, based on detailed records obtained directly from the Library's collection agency, only \$101,000 of this amount had not been referred for collection efforts, as shown in Table 4 on page 10.

For the four years analyzed, the accounts not referred to the collection agency totaled \$308,000.

Table 4. Library Accounts Written Off, 4 Fiscal Years

Fiscal Year	3-Year Category*					7-Year Category*		Totals	
	No Collections	Collection Agency	Credit Reported	Total	#	Total	#	Value	#
Account Balance Between:									
\$0.01 - 24.99	\$66,561	\$5,029	\$554	\$72,144	8,383	\$73	8	\$72,217	8,391
\$25 - 74.99	\$5,696	\$124,778	\$3,585	\$134,059	2,707	\$6,688	156	\$140,747	2,863
\$75 - 99.99	\$3,203	\$16,244	\$1,873	\$21,320	247	\$1,257	15	\$22,453	262
\$100 - 499.99	\$16,454	\$75,988	\$9,221	\$101,663	539	\$2,203	16	\$103,766	555
\$500 - 999.99	\$2,064	\$12,960	\$2,113	\$17,137	25	\$ -	0	\$17,137	25
\$1,000 - 5,999.99	\$7,025	\$1,154	\$4,644	\$12,823	6	\$ -	0	\$12,823	6
FY 2012/13	\$101,004	\$236,153	\$21,990	\$359,147	11,907	\$10,221	195	\$369,368	12,102
Prior Fiscal Years:									
FY 2011/12	\$34,539	\$27,931	\$1,049	\$63,519	6,440	\$7,581	140	\$71,099	6,583
FY 2010/11	\$32,211	\$27,302	\$2,707	\$62,221	5,884	\$13,587	274	\$75,808	6,159
FY 2009/10	\$140,336	\$20,137	\$2,205	\$162,678	16,924	\$3,959	81	\$166,637	17,003
Total 4 Fiscal Years	\$308,090	\$311,523	\$27,951	\$647,565	41,155	\$35,347	690	\$682,912	41,847

* - Library staff reports its bad debt write-offs in separate amounts, including a 3-year category, which is described as not at collections or credit reported, and a 7-year category, which is described as credit reported.

Source: Auditor analysis of Library's reports to Accounting for bad debt write-offs and data obtained directly from the Library's collection agency.

- The Library's stated policy was to refer accounts of \$25 or more to the collection agency. According to staff, in prior years only amounts owed for overdue materials, such as books or DVDs, were being referred for collection. Based on matching Library data to the collection agency's data file, 253 accounts of \$25 or more written off in FY 2012/13 were not referred; these "No Collections" accounts totaled more than \$34,000.
- If the collection agency's efforts are unsuccessful, accounts greater than \$75 are then reported to credit bureaus. Based on the collection agency's records, the FY 2012/13 written-off accounts included 743 accounts owing

\$75 or more that were not reported to the credit bureaus; these accounts totaled about \$135,000.¹

- The Library does not maintain a record of the collection agency's collection efforts, such as the number of calls made or letters sent or the dates of account activity. Also, records were not maintained for any collection efforts made on the accounts not referred to the collection agency. As well, there is no written policy stating what the required collection efforts are for these accounts.
- Particularly for accounts that are not referred to the collection agency, there is an increased risk of fraud and error. The position responsible for submitting accounts for write-off also had access to accounts receivable records and cash as well as reconciliation responsibilities.
- A spreadsheet listing including name, account number, last activity date and amount owed was kept as the record of written-off accounts. This information alone was not sufficient to support that collection efforts had occurred. Further, the spreadsheets are not password protected to prevent alteration, and they are subject to intentional or accidental deletion.

Current Library staff was not aware that these detailed account listings developed by former Library staff existed. Auditors helped find them by reading draft write-off procedures that had not been finalized. For FY 2013/14 write-offs, it is likely Library staff would have purged records without retaining the basic account information in spreadsheet format. Without the spreadsheet details, it would not have been possible to match the account write-offs to the collection agency records to verify that any collection efforts had occurred. For example, the account number was not retained for the 7-year category of FY 2012/13 write-offs, so we could not match these accounts to the collection agency records of credit-reported accounts.

Library staff has been cautioned to discontinue the practice of purging account records.

- B. In the annual aging report provided to Accounting, Library staff reported FY 2012/13 waived amounts totaling about \$30,700 with another \$209,000 waived during the prior three years, FY 2009/10 through FY 2011/12. This \$240,000 in waived fines and fees was not supported by documentation.

The Library's policy and practice is to let employees waive customer fines and fees "if they feel extenuating circumstances so warrant." Documentation, such as a customer explanation and signature or a supervisory approval, is not required to designate an amount as having been waived. Further, the staff who are authorized to collect cash payments are also authorized to write-off amounts owed. To counter this lack of segregation in accountability for cash, a senior management analyst periodically reviews waived fees for reasonableness. However, this employee also has access to cash. Thus, requiring a customer signature or supervisory approval to waive amounts owed would provide better accountability.

¹ This amount includes FY 2012/13 written off accounts of more than \$75 in the "No Collections" and "Collection Agency" columns.

- C. The assumptions used in estimating the Library's allowance for doubtful accounts were not documented. The annual write-off report includes a worksheet showing the amounts estimated to not be collectable in the future. For example, the uncollectable percentage applied to accounts less than one year old was 32%, while those from one to two years old were estimated to be 97% uncollectable. However, while the percentage used is documented, current Library staff does not have any information on the methodology, assumptions and supporting data used to determine these amounts.

Recommendations:

The City Treasurer should:

- A. Evaluate whether Library accounts receivable should be managed by Accounting and Business Services staff, including revenue recovery services. Otherwise, the City Treasurer's office should require Library to submit its collection policies, processes and documentation of collection activity for accounts submitted for write-off. Further, the City Treasurer's office should evaluate whether additional collection efforts are appropriate for these bad debt accounts.
- B. Establish or require more specific written waiver guidelines, particularly requiring appropriate customer or supervisory documentation.
- C. Ensure sufficient support for uncollectable account estimates.

2. A City-wide policy has not been established for accounts receivable management, and payments are made to vendors delinquent in paying amounts owed to the City.

The City Treasurer's office has not yet issued policy guidance for City staff on how to manage accounts receivable for amounts owed to the City.

Several departments throughout the City provide services in advance of receiving customer payment. For many of them, departmental records are used to track amounts owed, and amounts are not recorded in the City's accounting records until the customer payment is received. The billing and cash receipting functions would be more effectively separated if performed by the City Treasurer's Accounting department and Remittance Processing staff. For example:

- A. Certain Parks & Recreation facility fees are billed for payment after their use.
 - 1. Tennis court usage fees for tournaments are collected after the fact, but receivables are not established. Tournaments occur at both the Indian School Park and Scottsdale Ranch Park courts. Because the tournament's fees are based on matches played, the fees cannot be calculated until afterward. Currently the Parks & Recreation staff creates the invoices to bill and collect these fees.
 - 2. The Scottsdale Stadium rents its practice fields, with short-term fees often collected in advance and long-term use fees typically billed on a monthly basis. Parks & Recreation staff creates the invoices to bill and collect these fees.

3. Similarly, other facility use fees, such as for the Scottsdale Sports Complex fields, are occasionally billed after their use rather than being paid at the time of the reservation. Parks & Recreation staff is responsible for creating the billing invoices and collecting amounts owed.
- B. The Scottsdale Police Department has receivables for amounts owed to the City for insurance waivers that it bills and collects directly. Through May 2014, these collections totaled more than \$100,000 for FY 2013/14. When an organization wants to employ an off-duty police officer, it must provide proof of workers' compensation insurance or pay a fee for the City to waive the requirement and provide the coverage. Because the insurance waiver fee is \$10 per hour that the officer works, the Special Events Unit calculates and invoices this amount after the off-duty work assignment. The invoice directs that checks be made payable to the Scottsdale PD/Special Events Unit although Accounting's *General Cash Handling Guidelines* directs that all checks be made payable to the "City of Scottsdale." As well, payments are sent directly to the Special Events Unit.
 - C. Most City departments do not have staff experienced in collections nor a written policy to guide those efforts. And currently when accounts are submitted for write off, documentation is not required to substantiate the collection efforts that should have occurred. Recent audits have also identified receivables that were not sufficiently pursued for collection and/or timely recorded or where cash handling and receivable-related duties were not sufficiently separated.²

Table 5. Division/Department Accounts Receivable/Write-Off Overview

Division/ Department	Collection Efforts Documented?	Used Revenue Recovery?	FY 2012/13 Write-Off Amount
Accounting	Yes	For some accounts	\$3,232
Code Enforcement	Limited	Collection through Courts for some accounts	\$9,167
Parks & Recreation	Limited	For some accounts	\$1,916
Library	Limited	No	\$369,368
Aviation	Yes	For some accounts	\$580
Solid Waste	Yes	For some accounts	\$2,130
Risk Management	No	For some accounts	\$16,788
Parking Citations	Yes	Collection through Courts	\$48,991
Utilities	Yes	Yes	\$326,768
Tax & License	Yes	Yes	\$633,475
Total			\$1,412,415

Source: Auditor analysis of Revenue Recovery and Division/Department collection records.

² Examples of such recent audits include Risk Management's claims management, WestWorld's financial operations and the Tournament Players Club lease agreement.

Without specific guidance or requirements, City staff who have other specialized skills but have been tasked with billing and collecting accounts receivable may not have sufficient understanding of accounting and proper segregation of duties to lower the City's risk of fraud or error.

The Accounting Director recently started a draft Administrative Regulation (AR) but it has not yet been completed and issued. If the citywide AR is not going to be issued, another form of guidance and/or requirements is needed. Such guidance should include criteria for:

- establishing an accounts receivable in SmartStream rather than just recording the payment when received,
- sending the accounts to Accounting for billing,
- sending the accounts to Business Services for remittance processing and revenue recovery services,
- documenting the department's collection efforts, if any, prior to referral, and
- documenting the assumptions and methodology used in calculating the recommended allowance for doubtful accounts, and recommending bad debt write-offs.

- D. The City made payments to four vendors that during the same period had balances due to the City of more than \$500 and more than 60 days delinquent. For example, Vendor A is a wireless provider paying rental fees to the City. At the same time, the City pays this vendor for wireless service.

Table 6. Payments to Vendors with Delinquent Accounts Due to the City

Account	60 Days or More Overdue From Vendor	Months Overdue	Scottsdale Payments to Vendor
Vendor A	\$118,000	2 to 12	\$497,000
Vendor B	\$43,000	2 to 17	\$407,000
Vendor C	\$ 7,000	6 to 7	\$7,600
Vendor D	\$600	2	\$5,000
Total	\$168,600		\$916,600

Source: Auditor analysis of SmartStream reports as of May 2014

A common business practice used in the collection of receivables is to offset accounts receivable with accounts payable.

Recommendation:

The City Treasurer should:

- A. - C. Establish an Administrative Regulation or other authoritative requirements to guide City staff in establishing appropriate controls, recordkeeping, and collection efforts for amounts owed to the City.
- D. Establish a practice of comparing accounts payable with receivables for potential recoveries of amounts owed the City before making payments.

3. Certain user and system access controls can be strengthened.

Accounts receivable accounting is a module within the SmartStream accounting system that serves as the City's general ledger.

- A. The key functions of initiating, authorizing, processing and reconciling transactions should be separated to ensure no individual has sole control without oversight. Three accounting staff have access rights to accounts receivable functions that allow them to add, change and delete data or records. These access rights would allow circumvention of manual initiation, authorization and reconciliation processes. Segregation of duties and other internal controls are most effective when enforced by system controls rather than manual controls.
- B. Three technology staff have been given System Administrator rights to SmartStream. Given the power of System Administrator rights, this access should be limited to as few staff as possible.

Applying the principle of "least privilege" access serves to assign user access rights based on the least access needed to successfully complete day-to-day job duties.

Recommendations:

The City Treasurer should ensure that:

- A. A segregation of duties analysis is performed for receivables-related accounting functions and that system access rights are used to establish appropriate segregation of duties.
- B. The number of System Administrators is reduced to the minimum number feasible.

MANAGEMENT ACTION PLAN

1. The Library has written off and waived more than \$500,000 in fees during the past four years without documented collection efforts.

Recommendations:

The City Treasurer should:

- A. Evaluate whether Library accounts receivable should be managed by Accounting and Business Services staff, including revenue recovery services. Otherwise, the City Treasurer's office should require Library to submit its collection policies, processes and documentation of collection activity for accounts submitted for write-off. Further, the City Treasurer's office should evaluate whether additional collection efforts are appropriate for these bad debt accounts.
- B. Establish or require more specific written waiver guidelines, particularly requiring appropriate customer or supervisory documentation.
- C. Ensure sufficient support for uncollectable account estimates.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

- A. The City Treasurer's Office will work with Community Services staff to improve processes for Library accounts receivable collection and write-off.
- B. The City Treasurer's Office will work with Community Services staff to require specific criteria to be established for waiving library fees.
- C. The City Treasurer's Office will require sufficient support for annual uncollectible account estimates.

RESPONSIBLE PARTY: City Treasurer and Director of Community Services

COMPLETED BY: 09/30/2014

2. A City-wide policy has not been established for accounts receivable management, and payments are made to vendors delinquent in paying amounts owed to the City.

Recommendations:

The City Treasurer should:

- A. - C. Establish an Administrative Regulation or other authoritative requirements to guide City staff in establishing appropriate controls, recordkeeping, and collection efforts for amounts owed to the City.
- D. Establish a practice of comparing accounts payable with receivables for potential recoveries of amounts owed the City before making payments.

MANAGEMENT RESPONSE: Partially Agree

PROPOSED RESOLUTION:

- A. - C. The City Treasurer's Office will complete the administrative regulation currently in process. However, it is notable that 99.8 percent of the \$97 million in city receivables for fiscal year 2013 was billed and collected by qualified staff in the City Treasurer's Office or collected by other governments such as the state's Fines/Fees and Restitution Enforcement (FARE) Program.
- D. The data shown in Table 6 of the report represents active receivable accounts for vendors with current contractual agreements. Per discussions with the responsible contract administrators, collection of these amounts is not in jeopardy and withholding payment could place the city in breach of contract or in violation of city council resolutions. In the future, the City Treasurer's Office might consider this practice for accounts referred to revenue recovery or for write-off and consult with the City Attorney's Office for legal implications of withholding payment if a match occurs.

RESPONSIBLE PARTY: City Treasurer

COMPLETED BY:

- A. - C. 12/31/2014
- D. Not applicable

3. Certain user and system access controls can be strengthened.

Recommendations:

The City Treasurer should ensure that:

- A. A segregation of duties analysis is performed for receivables-related accounting functions and that system access rights are used to establish appropriate segregation of duties.
- B. The number of System Administrators is reduced to the minimum number feasible.

MANAGEMENT RESPONSE: Partially Agree

PROPOSED RESOLUTION:

- A. The City Treasurer's Office will complete a segregation of duties analysis for receivables-related accounting functions; however, given that only one individual is assigned to accounts receivable, existing system rights for this individual are essential to carry out all necessary tasks. Several compensating controls are in place to deter and detect inappropriate transactions or the absence of a transaction within the accounts receivable system. These controls include management authorization and review of all new accounts established in the system, dual review and approval by executive level division management and the accounting director for adjustments or refunds to receivable accounts, inability to delete a receivable account once it has been established in the accounts receivable system, daily independent

verification of data entry batches, and monthly reconciliation between the accounts receivable subsystem and the general ledger.

- B. The City Treasurer believes the current number of System Administrators is the minimum number feasible. The SmartStream platform is an integrated Financial System consisting of Accounts Receivable, Accounts Payable, Fixed Assets, General Ledger, Supplies Inventory, Requisition, and Purchase Orders. At present the Accounting technology support team consists of three members, each charged with supporting all of these modules on a day to day basis. Due to the integrated nature of the system and the responsibilities of the team members, system administration rights are critical to them being able to function.

RESPONSIBLE PARTY: City Treasurer

COMPLETED BY:

- A. 12/31/2014
- B. Not applicable

City Auditor's Office

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Councilmember Virginia Korte
Councilman Robert Littlefield

City Auditor's Office

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Lai Cluff, Senior Auditor
Cathleen Davis, Senior Auditor
Brad Hubert, Internal Auditor
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The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability, and integrity.