



## Memorandum

TO: Tom Duensing, Director, Financial Services  
THRU: Bill Greene, City Auditor (X8982)  
FROM: Keith Smith, Sr. Internal Auditor (X8416)  
CC: Andrew Ching, City Manager  
Steven Methvin, Deputy City Manager, Chief Operating Officer  
Ken Jones, Deputy City Manager, Chief Financial Officer  
Rosa Inchausti, Deputy City Manager  
Sherry McGlade, Controller  
Tarja Nummela, Customer Service Manager  
DATE: October 5, 2021  
SUBJECT: FINAL REPORT: Accounts Receivable Part 2 (Policy and Customer Service)

Attached is our final report on the subject audit. Copies of this report will be distributed to the mayor and council and posted to the Internal Audit Office website.

Thank you and your staff for your cooperation during this project.

# Accounts Receivable – Part 2 (Policy and Customer Services)

October 5, 2021

## Project Team:

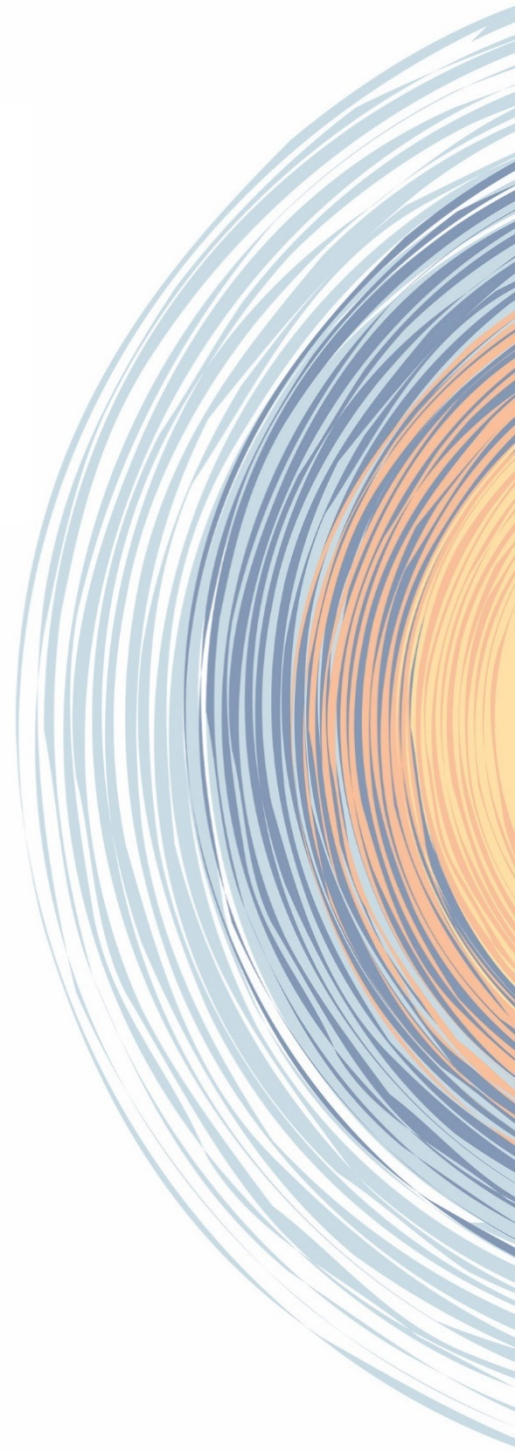
Bill Greene, City Auditor  
Keith Smith, Sr. Auditor

## Mission Statement

To enhance and protect organizational value by providing high-quality, objective, risk-based audit and consulting services to assist the City in accomplishing strategic priorities, goals, and objectives.



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## **Executive Summary**

### **Purpose**

We audited Customer Services' (Water/Wastewater/Solid Waste) accounts receivable processes to evaluate internal controls over monitoring, collecting, and writing off amounts owed to the City. In addition, we evaluated the need for a citywide policy providing guidance on accounts receivable to departments.

### **Background**

Accounts Receivable, in simple terms, is money owed to the City by its debtors. In Part 1 of this audit (report issued June 28, 2021), we audited Transit Special Revenue and Community Services receivables.

Part 2 of our audit focused on Water/Wastewater and Solid Waste accounts receivable managed by Customer Service. The associated utility receivables covered in this audit represent about \$10.5M of the total \$14.3M in accounts receivable for proprietary funds as reported in the City's FY2020 financial statements.

We coordinated our work on this audit with the City's external audit firm to ensure that our audit focused on areas not covered during their audits, thus avoiding duplication of effort.

### **Results in Brief**

**1. Development of a citywide policy or written guidance to assist departments with the decentralized accounts receivable function will help ensure consistent practices and expectations across the City.**

Departments we reviewed in Parts 1 and 2 of this audit had accounts receivable procedures in various stages of completeness. Many were outdated, some were in draft form, and none were comprehensive. In addition, there is no city-wide policy related to accounts receivable. Although each department has varying operational needs and there may not be a "one-size-fits-all" policy, basic guidance issued by Financial Services would help provide direction to department staff who process receivables as many do not have a financial background.

**2. Due to the financial burden on residents related to COVID-19, City management placed normal collections procedures on hold in March 2020. Therefore, our review of collection procedures focused on activities prior to this date.**

Late fees, delinquency fees, and service suspensions have been placed on hold. As of the time of our audit, 2,006 customer accounts were eligible for disconnects (60+ days past due) and the total billed amount over 60 days past due was \$1,019,042. In

addition, Financial Services estimates that delinquency fees and reconnect fees not charged were \$82,000 in FY19/20 and \$470,000 in FY20/21.

**3. Processing of delinquent accounts by the Collection Agency and the account balance write-off procedures were accurate and effective.**

Delinquent accounts sent to collections prior to March 2020 are still being processed by the contracted collection agency. We reviewed the collection process to ensure that the agency was taking the contracted fee and the remaining balance was forwarded to the City and correctly applied to customer accounts.

After 360 days, accounts sent to the collection agency that remain unpaid are placed in write off status in the billing system. The collection agency can still perform work to collect these funds; however, the balances are written off in the system. We verified that these outstanding accounts are removed from the receivable balance reported in the City's financial statements.

**Recommendations**

Our detailed report includes recommendations to further strengthen controls related to Accounts Receivable in the areas audited.

## Department Responses to Recommendations

<b>Rec. 1.1: Financial Services create an over-arching City policy for departments responsible for Accounts Receivable functions.</b>	
<b>Response:</b> We concur with the recommendation. The City of Tempe Accounting team is working on putting together a Citywide Accounts Receivable policy in conjunction with a review/rewrite of other related Accounting policies.	<b>Target Date:</b> 6/30/2022
<b>Explanation, Target Date &gt; 90 Days:</b> This project is part of a larger Accounting policies review/rewrite project. Tempe Accounting is currently assessing, updating, and in certain situations, creating accounting procedures, including creation of Citywide Cash Handling and Credit Card Handling procedures, which has not been developed previously. This is a comprehensive process that requires policy and procedures to be consistent and understandable and is expected to be complete over the next nine months.	
<b>Rec. 2.1: Consider developing economic or financial criteria to help determine the optimal time for resuming standard delinquent account collection procedures.</b>	
<b>Response:</b> We concur with the recommendation. Staff has determined that standard delinquent account collection procedures will begin January 2022. This is based on a) the fact that the economy impacted by the pandemic has been relatively stabilized, b) other comparative municipalities have resumed delinquent procedures, and c) grant funding information made available to utility customers was provided multiple times. System testing has begun, and the notification process will begin in November 2021.	<b>Target Date:</b> January 2022
<b>Explanation, Target Date &gt; 90 Days: N/A</b>	
<b>Rec. 2.2: Customer Service establish a comprehensive set of policies and procedures related to accounts receivable.</b>	
<b>Response:</b> We concur with the recommendation and the policies and procedures have been completed. We have revised the existing policies and those are now available for all employees in Customer Services. We will review the policies with each new employee as a part of their initial training program.	<b>Target Date:</b> 9/17/2021
<b>Explanation, Target Date &gt; 90 Days: N/A</b>	

# **1 – Citywide Accounts Receivable Policy**

## **Background**

Accounts Receivable is a decentralized function in the City. Each department, division, and functional area is responsible for identifying, tracking, collecting, and reporting any accounts receivable.

Financial Services (Accounting) serves as a resource for departments and ensures that the accounts receivable balances are properly reported on the City's financial statements.

## **Approach**

While performing audit testing and evaluation during parts 1 and 2 of this audit, we gathered information regarding the knowledge of the staff in relation to their responsibilities for accounts receivable functions and the existence and completeness of department-specific written policies.

## **Results**

***A centralized, written Accounts Receivable policy would help provide consistent guidance and minimum internal control procedures to department staff that perform these functions throughout the City.***

While our sample size was limited, we found that staff in many of the areas we reviewed were not well versed on their responsibilities for accounts receivable. Further, staff often did not have the training or knowledge necessary to perform some functions and department-specific policies were not comprehensive. Some also did not know which receivable operations should be addressed in the policies or that City collection agency resources are currently available.

Financial Services (Accounting) does not have sufficient resource to manage the day-to-day functions of all the City's decentralized accounts receivable processes. However, a formal, centralized accounts receivable policy establishing guidance and expectations promotes consistent procedures and more effective internal controls. In a previous audit, the IAO recommended a similar central policy related to cash handling which is currently being developed by Financial Services.

## **Recommendation**

1.1 Financial Services create an over-arching City policy for departments responsible for Accounts Receivable functions.

Note: If desired, the IAO can provided a basic outline of suggested topics to be covered.

## **2 – Customer Services Accounts Receivable**

### **Background**

The accounts receivable balance on the City's FY2020 financial statement relating to Water/Wastewater and Solid Waste utilities (Account 0037) totaled \$10,504,191. This includes outstanding balances for water, wastewater, residential solid waste, and commercial solid waste for customers with water accounts.

### **Approach**

We reviewed the collections and write-off processes related to these receivables as well as receivable policies and procedures.

#### **Collections:**

Due to the financial burden placed on residents from the effects of COVID-19, City management suspended all delinquent account collection efforts in March 2020. Therefore, we could not perform audit testing related to the current processing of accounts receivable.

Delinquent accounts sent to the contracted collection agency prior to March 2020 are still being collected. We reviewed a sample of the most recent 6 months of collections reported by the agency to ensure that the contracted fee was deducted, the City was provided with its full share of the collected amount, and that the funds collected were credited to the proper customer accounts.

#### **Write Off Process**

We reviewed the write off process with staff to ensure there was a reasonable approach to writing off bad debt and confirm that write off amounts are not included in the receivable balances that appear on the financial statements.

#### **Existing Policies and Procedures**

We requested all existing policies and procedures related to Accounts Receivable for Customer Service. We were provided with three documents including procedures to set up a payment plan and information related to write offs.

### **Results**

**Due to the financial burden on residents related to COVID-19, City management placed normal collections procedures on hold in March 2020. Therefore, we could not audit collection procedures beyond this date. Processing of delinquent accounts sent to the Collection Agency prior to March 2020 and the account**

**balance write-off procedures are accurate and effective. It is unclear when standard collection processes will commence.**

Late fees, delinquency fees, and service suspensions have been placed on hold since March 2020. As of the time of our audit, 2,006 customer accounts were eligible for disconnects (60+ days past due) and the total billed amount over 60 days past due was \$1,019,042. In addition, Financial Services estimates that delinquency fees and reconnect fees not charged were \$82,000 in FY19/20 and \$470,000 in FY20/21.

The usual collection process is as follows:

- The CC&B system automatically monitors delinquent accounts and performs the following:
  - Bill is due 27 days from the billing date
  - On the 28<sup>th</sup> day, a 1% late fee is added
  - On the 36<sup>th</sup> day, a \$15 plus tax delinquent fee is added and a Service Suspension Notice is mailed
  - 14 days later a shut off order is automatically generated (total 50 days past due)
- Staff members have leverage to establish payment plans with customers. If the plan is not met, it is cancelled and a shut off notice is generated.
- If no payment is received within 7 days of shut off, a technician is sent out to deactivate the meter.
- After the meter is deactivated, customers must pay full balance due plus a deposit to have it reactivated.

Our review of a sample of the most recent 6 months of collections reported by the agency (for accounts provided to them prior to March 2020) showed that the appropriate contracted fee was deducted, the City was provided with its full share of the collected amount, and funds collected were credited to the proper customer accounts.

We also confirmed there was a reasonable approach to writing off bad debt and write off amounts were appropriately excluded from receivable balances reported in the City's financial statements.

**Existing policies and procedures for accounts receivable could benefit from additional update and revision to help ensure they address primary activities.**

Based on our review, existing policies and procedures do not include some significant accounts receivable functions. For example, addressing topics such as monitoring AR (aging reports), collection agency processing, and the timeline of collection steps that CC&B automatically takes would ensure that a more comprehensive set of guidelines exists in case of extended staff leave or turnover.



## **Recommendations**

2.1 Consider developing economic or financial criteria to help determine the optimal time for resuming standard delinquent account collection procedures.

2.2 Customer Service establish a comprehensive set of policies and procedures related to accounts receivable.

## **Scope and Methods**

### **Scope**

This audit covered Water/Wastewater/Solid Waste accounts receivable collections and write-off process. In addition, existing policies and procedures related to receivables were evaluated both Citywide and specific to Customer Service.

### **Methods**

We used the following methods to complete this audit:

- Interviewed staff and walked through the collections and write off process
- Reviewed the current collection agency contract
- Reviewed a sample of collection agency remittances to the City
- Evaluated existing policies and procedures

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.