



CITY OF SAN ANTONIO

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July 28, 2011

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Mayor and Council Members:

SUBJECT: Audit Report of Finance Accounts Receivable Write-offs

We are pleased to send you the audit report of Finance Accounts Receivable Write-offs. This audit began in December 2010 and concluded with an exit meeting with department management in May 2011. Management's verbatim response is included in Appendix B of the report. The Finance and Human Resources Departments should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kevin W. Barthold".

Kevin W. Barthold, CPA, CIA, CISA
Acting City Auditor
City of San Antonio

Distribution:

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of the Finance Department

Accounts Receivable Write-offs

Project No. AU10-005

July 28, 2011

Executive Summary

As part of our annual Audit Plan, we conducted an audit of Finance accounts receivable write-offs¹, cancellations, adjustments and allowance for uncollectible accounts for Customer Accounts Receivable, Employee Accounts Receivable, and Insufficient Funds Accounts Receivable.

The audit objectives, conclusions, and recommendations follow:

1) Are accounts receivable write-offs appropriate?

Yes. Overall, accounts receivable write-off and adjustment transactions are accurately recorded and properly classified. However, not all cancellations and adjustments were properly authorized for transactions that were covered under Administrative Directive (AD) 8.4, *Financial Management of Accounts Receivable*.

- 5 of 49 (10%) cancellation and adjustment transactions tested were performed by unauthorized staff.
- 40 of 49 (82%) cancellation and adjustment transactions performed by authorized staff were performed without sufficient supporting documentation.
- 26 of 61 (43%) employees had inappropriate transaction access to create and delete cancellation, adjustment and write-off transactions in the City's SAP financial reporting system.

We reviewed an additional sample of employee accounts receivable write-off transactions and determined they were properly authorized and accurately recorded. However, contrary to AD 8.4, the Human Resources Department (HR) did not coordinate accounts receivable collection efforts with the City Attorney's Office for amounts over \$5,000 and over 120 days past due. In addition, HR did not monitor to ensure that employee benefits were terminated and billings were discontinued in the benefits system prior to the write-offs.

We recommend the Chief Financial Officer:

- Enforce AD 8.4 by ensuring that only authorized Finance personnel perform cancellation and adjustment transactions with required supporting documentation.
- Reevaluate and assign SAP user access roles to ensure accounts receivable duties are properly segregated.

¹ A write-off is the removal of an account receivable from the active accounting records because it is uncollectible and/or obsolete or uneconomical to collect and is no longer regarded as an asset for financial reporting purposes. The receivable is still an obligation of the customer since the City is not permitted to forgive debts.

We recommend the Director of Human Resources:

- Comply with AD 8.4 by coordinating the collection of past due accounts receivable amounts greater than \$5,000 with the City Attorney's Office.
- Update and implement internal procedures to comply with AD 8.4 monitoring and documentation requirements and effectively manage accounts receivable.

2) Are accounts receivable aging and allowance calculations appropriate?

Yes, the City's allowance for uncollectible accounts receivable is accurately calculated and applied in accordance with Finance policies and procedures. However, City departments do not consistently apply payments and credits to clear corresponding invoices. As of March 15, 2011, City departments had not matched 769 unapplied payments or credits totaling \$540,442 from the September 30, 2010 aging reports to corresponding invoices.

We recommend the Chief Financial Officer enforce AD 8.4 by ensuring departments properly review customer accounts and process adjustments, which includes matching payments and credits to corresponding invoices.

Management's verbatim response to our recommendations is included in **Appendix B** on page 7.

Table of Contents

Executive Summary	i
Background.....	1
Audit Scope and Methodology	2
Audit Results and Recommendations	3
A. Accounts Receivable Adjustments and Cancellations	3
B. Employee Accounts Receivable	4
C. Aged Accounts Receivable.....	4
Appendix A – Staff Acknowledgement	6
Appendix B – Management Response.....	7

Background

The City of San Antonio (City) bills and collects certain taxes, fees, and charges for goods and services provided to citizens and the public. It is not the policy of the City to extend credit. However, when the City provides goods or services to customers before receipt of payment, the departments invoice for those goods or services and establish an accounts receivable.

The City Manager and Chief Financial Officer issued Administrative Directive (AD) 8.4, *Financial Management of Accounts Receivable*, effective July 1, 2010. The AD outlines guidelines and related internal controls to ensure proper processing and management of City accounts receivable.

The Finance Department (Finance) provides policy direction, guidance and oversight with respect to invoicing, collection, aging, and adjustment of uncollectible accounts receivables. The Finance Billings and Accounts Receivable Section (BARS) is responsible for oversight and management of the billing and collection process associated with accounts receivable. BARS uses aging reports to calculate an allowance for doubtful accounts. The allowance is an estimate of the total accounts receivable balance that is uncollectible based on aging and other factors for financial reporting purposes. Specific accounts determined to be uncollectible are written off from the accounts receivable financial balances. In accordance with Article 3 Section 55 of the Texas Constitution, the City is not permitted to forgive debts, so receivables written off are still an obligation of the customers.

According to AD 8.4, each City department is required to manage outstanding amounts owed the City to maximize the conversion of accounts receivable into cash and minimize losses of revenue from uncollected funds. Individual City departments are also responsible for establishing internal procedures to ensure compliance with AD 8.4.

Audit Scope and Methodology

The audit scope covered accounts receivable write-off, adjustment, aging and allowance transactions for fiscal year (FY) 2010 (October 1, 2009 to September 30, 2010). There were 7,357 Customer, Employee, and NSF accounts receivable write-off and adjustment transactions for \$5.9 million and \$16.7 million, respectively, for the period. We selected a statistical attribute sample of 94 transactions at a net amount of \$123,000 for testing. We also selected an additional sample of write-off transactions dated September 30, 2010 for 270 retired, active and terminated employee accounts receivable. These write-offs totaled \$369,726 and were originally invoiced from FY 2005 through FY 2010. In addition, we reviewed the allowance for doubtful accounts calculation and accounts receivable aging reports as of September 30, 2010.

We interviewed Finance and operations department fiscal personnel. We also observed procedures and reviewed relevant documentation such as written policies to obtain an understanding of receivable processes.

We reviewed transactions for authorization, classification, accuracy, and compliance with AD 8.4. Testing criteria included administrative directives, procedures, and generally accepted accounting principles.

We performed testwork of transaction access controls to accounts receivable transactions in the City's SAP financial reporting system (SAP). We evaluated computer-processed data in SAP to validate accuracy and completeness. We performed direct tests on the data rather than evaluate the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this audit from December 2010 to April 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. Accounts Receivable Adjustments and Cancellations

Accounts receivable cancellation and adjustment transactions were accurately recorded and properly classified. However, for transactions performed after the effective date of AD 8.4, SAP transaction access roles were not appropriately segregated and sufficient documentation was not originally obtained before write-offs were performed. Specifically, during testing we determined that:

- 5 of 49 (10%) cancellation and adjustment transactions were performed by staff not assigned to the Finance Billing and Accounts Receivable Section (BARS).
- 40 of 49 (82%) cancellations and adjustments performed by authorized staff were performed without adequate support documentation.
- 26 of 61 (43%) employees had inappropriate transaction access to create and delete cancellation, adjustment and write-off transactions in SAP.

According to AD 8.4, each City department is responsible for billing and entry of sales orders/invoices into SAP. However, BARS is solely responsible for processing cancellations, reversals or adjustments of sales orders. Departments are required to send requests for these transactions to BARS with supporting documentation, including the reason for the request.

This lack of segregated duties occurred because SAP user access roles were not reevaluated and adjusted when AD 8.4 was implemented. As a result, department personnel have the ability to bill customers and create and delete cancellations, adjustments and write-offs. This inappropriate segregation of duties and lack of supporting documentation exposes the City to improper management of receivables and potential misappropriation of funds.

Recommendations

The Chief Financial Officer should:

A.1 Enforce AD 8.4 by ensuring that only authorized Finance personnel perform cancellation and adjustment transactions with required supporting documentation.

A.2 Reevaluate and assign SAP user access roles to ensure accounts receivable duties are properly segregated.

B. Employee Accounts Receivable

We reviewed an additional sample of employee accounts receivable write-off transactions for September 30, 2010 totaling \$369,726 for 270 retired, active and terminated employees. These were properly authorized and accurately recorded. However, the Human Resources Department (HR) wrote off receivable amounts greater than \$5,000 for 8 employees totaling \$73,180 without consulting with the City Attorney's Office for additional collection efforts. For the 270 employees with write-offs, HR did not monitor to ensure employee benefits were terminated and billings were discontinued in the benefits system prior to the write-offs. As of February 28, 2011, 86 employees with write-offs (32%) had an active status in the benefits system, with 6 employees continuing to receive benefits.

As indicated by AD 8.4, each department is responsible for managing outstanding amounts owed the City in order to maximize the conversion of accounts receivable into cash and minimize losses of revenue from uncollected funds. Moreover, collection efforts should be coordinated with the City Attorney's Office for accounts receivable write-offs greater than \$5,000.

According to HR personnel, this occurred due to a lack of sufficient documentation and staffing inconsistencies. Nevertheless, insufficient accounts receivable management exposes the City to financial losses. According to HR management, adjustments have been made to its structure and staffing to more appropriately manage and support all accounts receivable activities.

Recommendations

We recommend the Director of Human Resources:

B.1 Comply with AD 8.4 by coordinating the collection of past due accounts receivable amounts greater than \$5,000 with the City Attorney's Office.

B.2 Update and implement internal procedures to comply with AD 8.4 monitoring and documentation requirements and effectively manage accounts receivable.

C. Aged Accounts Receivable

The City's allowance for uncollectible accounts receivable was accurately calculated and applied in accordance with Finance policies and procedures. However, City departments did not consistently apply payments and credits to clear corresponding invoices. We reviewed aging reports through September 30, 2010 for amounts over 180 days old. As of March 15, 2011, City departments had not matched 769 unapplied payments or credits totaling \$540,442 from the September 30 aging reports to corresponding invoices.

According to AD 8.4, City departments are required to review aging reports and process any necessary adjustments to customer accounts to ensure completion of the collection cycle, which includes matching invoices to payments. If payments are not properly matched to clear outstanding invoices, Finance may incorrectly calculate the allowance for doubtful accounts and misstate net accounts receivable.

Recommendation

C. The Chief Financial Officer should enforce AD 8.4 by ensuring departments properly review customer accounts and process adjustments, which includes matching payments and credits to corresponding invoices.

Appendix A – Staff Acknowledgement

Brian K. Williams, MBA, CFE, CIA, CGAP, Audit Manager
Dawn Oppermann, CPA, CIA, CGAP, CCSA, Auditor in Charge
Rosalia Vielma, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

July 15, 2011

Kevin Barthold, CPA, CIA, CISA
Acting City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Finance Accounts Receivable Write-Off Audit

The Finance Department has reviewed the audit report and developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A.1	<p>Accounts Receivable Adjustments and Cancellations</p> <p>The Chief Financial Officer should enforce AD 8.4 by ensuring that only authorized Finance personnel perform cancellation and adjustment transactions with required supporting documentation.</p>	3	Accept	<p>Troy Elliott, Assistant Finance Director</p>	Completed
A.2	<p>The Chief Financial officer should reevaluate and assign SAP user access roles to ensure accounts receivable duties are properly segregated.</p>			<p>Juanita Mack, Disbursements & Receivables Administrator</p>	
<p>Action plan:</p> <p>Prior to the implementation of SAP in 2004, the ability to record and monitor accounts receivables for the City in a single system was limited. Following the conversion to a new financial system, a centralized Accounts Receivable Section was established within the Finance Department to provide monitoring and oversight of open receivables. As a result, the Finance Department has made significant improvements in the processes, management and controls supporting City receivables. Accounts Receivable Administrative Directive 8.4 was developed and made effective July 1, 2010 to provide guidance to City Departments in the management of their receivables.</p>					

Appendix B – Management Response (continued)

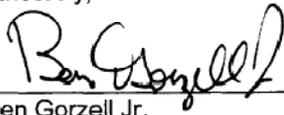
	<p>In order to further strengthen controls surrounding the accounts receivable function, the City is in the process of implementing Segregation of Duties software "Approva" that assists the Finance Department in identifying existing conflicts. This provides visibility within the City's automated process and allows the ability to analyze the Accounts Receivable roles for billing, collecting, and application of payments to ensure segregation of duties exist while providing the employees with the roles necessary to perform their duties. As part of this project, Accounts Receivable's system roles will be redesigned or mitigating controls will be established to only allow certain functionality in the system based on a position's authority and duties.</p> <p>Once the implementation of the newly defined SAP roles occurs, Finance will be able to assign SAP Transaction Access based on user functionality and duties. For example, this would systematically prevent an individual with billing privileges to cancel an invoice. A request would be required to be submitted to the Finance Department to cancel the billing transaction. This will allow us to match our procedural and policy driven segregation of duties to our system established roles. The newly redesigned roles are anticipated to be completed and available by July 31st, 2011. These new roles will be phased in over the next two years in conjunction with the implementation of Shared Services.</p> <p>In the interim and effective immediately, the Finance Department will monitor billing cancellations and adjustments for all transactions created by individuals outside of Finance Department through system reporting. Any violations discovered during this analysis will be addressed with the respective Department. The Finance Department will also be holding a training session with the Department Fiscal Administrators on July 15, 2011 to review the requirements of Administrative Directive 8.4 and to specifically reinforce the segregation of duties that should be established as well as the supporting documentation that is required to be submitted to the Finance Department.</p>				
<p>C</p>	<p>Aged Accounts Receivable</p> <p>The Chief Financial Officer should enforce AD 8.4 by ensuring departments properly review customer accounts and process adjustments, which includes matching payments and credits to corresponding invoices.</p>	<p>5</p>	<p>Accept</p>	<p>Troy Elliott, Assistant Finance Director</p> <p>Juanita Mack, Disbursements & Receivables Administrator</p>	<p>October 31, 2011</p>
<p><u>Action plan:</u></p> <p>The Finance Department has made a significant amount of progress in the management of the City's Accounts Receivables through the implementation of a new financial system, establishment of a central Accounts Receivable Section in the Finance Department, development of policy and procedures, implementation of Shared Services and continued reduction in the amount of receivables due the City. The Finance Department will continue to build on and leverage these improvements to reduce the amount of outstanding payments and unapplied payments. The accounts receivable section of the Finance Department will work with Departments to have any outstanding items cleared prior to closing the quarter.</p>					

Appendix B – Management Response (continued)

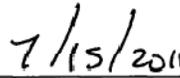
<p>The Finance Department will also be holding a training session with the Department Fiscal Administrators to review the requirements of Administrative Directive 8.4 on July 15, 2011 and to specifically reinforce the importance of applying credits timely in accordance with Administrative Directive.</p>
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We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



Ben Gorzell Jr.
Chief Financial Officer



Date

Appendix B – Management Response (continued)



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

June 30, 2011

Kevin Barthold, CPA, CIA, CISA
Acting City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Finance Accounts Receivable Write-Off Audit

The Human Resources Department has reviewed the audit report and developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
B.1	<p>Employee Accounts Receivable</p> <p>The Director of Human Resources should comply with AD 8.4 by coordinating the collection of past due accounts receivable greater than \$5,000 with the City Attorney's Office.</p>	4	Accept	Nikki Ramos, Assistant Director	Complete
	<p>Action plan: Human Resources will comply with all requirements in accordance with AD 8.4. Through the current thorough reconciliation process and monthly 30/60/90 day dunning process recently implemented by HR, accounts receivable bad debt balances are not expected to exceed \$5,000 for active employees and retirees. In any instance where a receivable may exceed \$5,000, Human Resources will coordinate additional collection efforts through the City Attorney's Office and Finance Department (as outlined in AD 8.4). The eight employees identified in the write-off audit with balances greater than \$5,000 were not pursued for collection due to insufficient documentation. This has been corrected in that current processes now require both benefit and fiscal documentation before action is taken on benefit termination and write-off.</p>				
B.2	<p>The Director of Human Resources should update and implement internal procedures to comply with AD 8.4 monitoring and documentation requirements and effectively manage accounts receivable.</p>	4	Accept	Nikki Ramos, Assistant Director	Complete
	<p>Action plan: Human Resources developed and implemented billing, collection, and write-off policies and procedures in April 2010. With the implementation of Administrative Directive (AD) 8.4 – Accounts Receivable Management in July 2010, Human Resources made adjustments to processes to address the new requirements. HR's updated processes include: collection and maintenance of complete documentation showing a good faith effort to collect the monies due and appropriate documentation and Finance Director approval of Accounts Receivable write-offs.</p> <p>Human Resources has proactively addressed the Accounts Receivable function since the realignment of fiscal duties in late 2008 and has implemented significant process improvements such as:</p> <ul style="list-style-type: none"> • Centralization of all billing, analysis, collection, and reporting responsibilities • Review of all customer accounts • Monthly dunning for approximately 1,400 customers • Implementation of a project to reconcile all customer accounts • Creation of a draft collections policy • Creation of a draft write-off procedures guide • Reconciliation of almost 800 customer accounts • Termination of customers, where appropriate • Successful collection from more than 250 past due accounts <p>Through updated policies and practices, including ongoing reconciliation and collection efforts, Human Resources will be in compliance with AD 8.4.</p>				

Appendix B – Management Response (continued)

Management's Corrective Action Plan for the Finance Accounts Receivable Write-Off Audit

06/30/2011

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

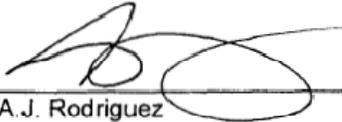
Sincerely,



Flor D. Garcia
Interim Director
Human Resources

6/30/11

Date



A.J. Rodriguez
Deputy City Manager
City Manager's Office

6/30/11

Date