



OFFICE OF THE
City Auditor

Accounts Receivable Process Review

Follow Up

February 12, 2007

The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

Accounts Receivable Process Review

Follow-up

1. Introduction

The OCA performed a follow-up review to determine the current status of eight recommendations contained in the Accounts Receivable Process Review report which was issued on February 25, 2005.

The purpose of the follow-up review is to determine the implementation status of the recommendations contained in the Accounts Receivable Process Review report. The review was limited to the action taken by the Corporate Billing & Accounts Receivable unit (CB & AR) to address these recommendations. The original report contained eight recommendations and action plans to implement the recommendations. The OCA concluded that all the recommendations contained in the original report were completed in a satisfactory manner.

2. Background

2.1. Summary of Original Report issued on February 25, 2005

The CB & AR unit provides centralized billing service to business units throughout the Corporation, except for Assessment and Taxation, Police, and Library. Accounts receivable represent monies due to the Corporation for a variety of services and a significant portion of these billings represent cost recovery.

In our original report we recommended that the CB & AR unit improve internal controls over the following areas:

Work Processes between Transportation and CB & AR

The OCA observed that work processes between Transportation and the CB & AR unit require further improvement to ensure their joint role and responsibilities related to accounts receivable billing is more clearly defined. For example, the OCA noted that information requests for motor vehicle collision claims are received from multiple external parties (such as insurance companies, driver of the vehicle, and registered owner of the vehicle), and multiple internal parties such as the Law Branch. Inadequate co-ordination between Transportation and the CB & AR unit increases the number of days the customer account remains outstanding, thereby increasing the risk of non-payment.

Collection Risk

The OCA observed that increased collection risk existed because: (1) the SAP system¹ was not able to provide correct information about which accounts were sent to collection agencies, (2) of limited effectiveness of the collection agencies, and (3) inadequate procedures used exist to process customer accounts.

Segregation of Duties and Physical Security

The OCA observed that some employees within the CB & AR unit had the ability to adjust customer accounts in a manner that could potentially conceal the theft of cash or other negotiable instruments.

Also other City employees were at risk of physical harm when transferring (unescorted) cash between various locations.

Performance Measurement

The OCA observed that performance reports did not provide key performance indicators by department. As a result it is more difficult to track and monitor customer account performance.

2.2. Current State**Recommendation # 1 - Complete**

The OCA recommends that the CB & AR unit continue to work with Transportation, Risk - Uninsured Property to enhance the business processes for billings, invoices, and accounts receivable in order to significantly reduce the cycle time required to generate a customer invoice after an incident.

Transportation improved their processes for uninsured property claims as follows: (1) developed repair/recovery process guidelines/procedures, (2) developed timelines for repair and invoice completion, (3) developed a tracking database to monitor claim and invoicing status, (4) use early notification letters to 3rd parties and their insurance companies, (5) established service level agreements between various internal and external parties, (6) developed appropriate statements to support repair costs. The CB & AR unit work with Transportation on a continuous basis to track and monitor customer account status. As a result a significant improvement was achieved in the average turnaround time required to issue an uninsured property claims invoice from 142 days in 2004 to 84 days in 2006.

¹ The SAP system is one of the City of Edmonton's enterprise resource planning applications which is used throughout the corporation to manage business processes such as Accounts Receivable, Accounts Payable, Asset Management etc.

Recommendation # 2 - Complete

The OCA recommends that management determine the most effective solution to resolve the problem where the SAP system is not able to provide the correct information about which accounts were sent to collection agencies.

The SAP system was modified so that SAP is now able to provide accurate information about the status of customer accounts, including accounts sent to collection agencies.

Recommendation # 3 - Complete

The OCA recommends that management determine if the doubtful accounts collection process could be performed more effectively using in-house employees rather than collection agencies.

In-house employees are effectively engaged in the collection process at an early stage of delinquency. Early intervention has led to improved collection performance, for example the total amount of ambulance billings sent to collection agencies increased slightly from \$ 2,532,000 in 2005 to \$ 2,564,000 in 2006, representing a 1.3% increase, despite a 6.5% increase in the total number of ambulance trips from 58,509 trips in 2005 to 62,322 trips in 2006.

Recommendation # 4 - Complete

The OCA recommends that the accounts receivable procedures be documented in order to provide staff with adequate direction when managing receivable accounts.

The accounts receivable operating procedures are properly documented in order to provide CB & AR staff with adequate direction when processing customer accounts. As a result customer accounts are processed on a consistent basis.

Recommendation # 5 - Complete

The OCA recommends that the cashiering function be removed from the CB & AR unit in order to ensure that no responsibility to process cash or any other negotiable instruments exists.

The CB & AR's cashiering function was closed effective August 31, 2005 in order to provide adequate segregation of duties at the organizational level.

Recommendation # 6 - Complete

The OCA recommends that all employees within the CB & AR unit have their system access to the cashiering system revoked.

Effective December 31, 2006 access to the cashiering system has been revoked for CB & AR employees that have routine access to the SAP accounts receivable system, except for one employee and a back up who still retains access to the cashiering system in order to process a low volume of customer transactions which require special processing. These employees are properly supervised to ensure adequate segregation of duties exists. Also these transactions are processed in a secure room where access is restricted to authorized employees.

Recommendation # 7 - Complete

The OCA recommends that the practice of physically couriering cash unescorted to the CB & AR unit be eliminated as soon as possible.

The practice of using City employees to transfer cash to the CB & AR unit was eliminated since the cashiering function was shut down on August 31, 2005.

Recommendation # 8 - Complete

The OCA recommends that performance measurement reports be enhanced to improve reporting of key performance indicators by department in order to more effectively track and monitor customer billing performance.

The CB & AR unit has enhanced performance measurement reporting, including a tracking process to effectively monitor customer billing performance by department. For example each user department now receives a customer account receivable aging report for review and follow up purposes. As a result the user department is able to follow up potential delinquent customers on a timely basis.

3. Summary of Results

The OCA assessed the implementation status of each recommendation contained in the original report as summarized in the following table:

Appendix	Status	Number
A	Complete	8
N/A	In progress	0
N/A	Not implemented	0
N/A	No longer applicable	0
	Total recommendations	8

4. Conclusion

The eight recommendations contained in our report were completed in a satisfactory manner. These recommendations covered key areas within the CB & AR unit including work processes, collection risk, segregation of duties, and performance measurement. As a result the control environment has improved since the original report was issued on February 25, 2005. The OCA would like to thank all City staff who participated in this follow up review for their support, cooperation and feedback.