

Accounts Receivable Aging

Audit

December 2023

Accounts Receivable Aging (\$)					
	Current	31 - 60 days	61 - 90 days	Over 90 days	Total
ABC & Co	2,000	5,000	-	-	7,000
XYZ & Co	1,000	7,000	-	-	8,000
LMN & Co	1,000	2,000	2,000	1,000	6,000
Total	4,000	14,000	2,000	1,000	21,000

December 27, 2023
City of Fort Smith Board of Directors
SUBJECT: Accounts Receivable Aging Report

Board of Directors:

This report is the results of the Accounts Receivable (AR) Aging Audit conducted as part of the FY2023 Audit Plan. The objective of the AR Aging was to evaluate the internal control structure over the Utility billing processes and the AR Aging processes. As of September 30, 2023, Utility billing consisted of approximately \$5.4 million¹.

As part of the review process, Internal Audit performed the following procedures:

- Reviewed documentation, including standard operating procedures, financial reports, receivable aging reports, and contracts.
- Interviewed key department personnel to gain an understanding of the process and internal controls in place.
- Performed an assessment to determine control gaps and process improvements.
- Performed Accounts Receivable Aging testing on current and past customer delinquent accounts.

The billing process consists of five cycles billed each month through the Citizen Services Division. The charges are generated and calculated to be applied to the customers' accounts to complete the bill run. The bills are then created and posted to the general ledger receivables account. Customer payments can be made with a 3rd party service or in person. When a customer's account is not paid by the due date a late fee is assessed the following day to the account and a termination notice is sent to the customer if the payment hasn't been made within three (3) days from the due date. If the customer does not bring their account current after two months, their water service is subject for disconnection², however the account remains active until a final bill is assessed to the account. If the customer's account is closed and still has a balance, the account is sent to the collection agency upon the third month. If the collection agency receives any payments from the customer, the agency retains 33.34 % and the city receives the remaining amount. Citizen Services will make a note on the account the amount paid. As of December 12, 2023, delinquent account status for current customers 1 day or more totaled \$622,375 past due and the delinquent account status for past customers totaled \$316,222 past due³.

The Munis system is bill driven and not account driven, therefore, when past due amounts are sent to the collection agency, they are by bill month, not as a total amount due from the customer. A customer

¹ Utility Billing Receivables figures were obtained from the unaudited Board Financial Report provided by the Finance Department.

² Due to staffing not all accounts listed on the cut-off list are immediately disconnected and can sometimes take several months before the disconnection is complete.

³ Data provided by Citizen Services obtained from Tyler Munis system.

can have multiple past due amounts at any given time with the collection agency. The following table is the amounts written-off and sent to the collection agency that was provided by Citizen Services:

Date of File	Date written off	Total Amount	Comments
Dec2020 – April 2021	10/31/2021	\$777,193	Not sent to ARS until January 2023
2019 catch up	4/20/2023	\$43,811	Unique CID's from 2019 – Feb 2023
2020 catch up	4/20/2023	\$104,480	
2021 to April 2021 catch up	4/20/2023	\$65,717	
May 2021 – Feb 2023	May 2023	\$1,547,894	
March 2023	7/12/2023	\$93,194	
Total from above	N/A	\$2,632,292	

Findings & Recommendations

1. During the review process, it was discovered that customer payments had not been applied properly to aged billings, which resulted in customer billings continuing to age without a flag raised to write-off a customer's delinquent account or report it for disconnection. Because the customers were paying the current bills, the system didn't alert them that the customers had aged billings that needed immediate attention. Only closed accounts are triggered for this process. Per discussion with Utility Management, they were aware of the misapplication of customer payments and have now started applying payments to the past due amount instead of the current due amount. We recommend that Utility Management continue to implement the necessary controls in place to apply customer payments properly so that aged billings can successfully be collected. Additionally, if Utility Management are applying payments to the customers aged billings and the customers are not paying their current due amount, then management should follow policy and disconnect the customers services. Once disconnected, if the customer does not bring their entire account current, their account should be sent to the collection agency.
2. Some of the standard operating procedures have not been reviewed since 2020 and 2021. We recommend that Management reviews the procedures at least annually to ensure no updates are needed to the procedures so that the information can be kept current.
3. There are no approvals for accounts that are written-off. The report is generated monthly and sent to the third-party, Advantage Recovery, without review and approval from a supervisor/manager. We recommend that accounts that are sent to the third party for collections should be reviewed and approved by a supervisor/manager.
4. The reports generated are not documented with the parameters to support the correct accounts were captured within the set guidelines and those accounts are sent to the collection agency. We recommend that the parameters are documented with the report to validate the set guidelines that were used when the reports were generated.

5. During the review process, we noted a disconnection between the Finance Department and Utility Billings and Collections team. As of September 30, 2023, a discrepancy of \$78,000 remained in the account receivables reconciliations without a detailed explanation. The Utility Billing & Collections team had no visibility into the detailed general ledger balances or what is being reported on the financials on the Schedule of Utility Billing Receivables. The Utility Billings and Collections process is a finance function and should be structured within the Finance Department and not the Utility Department. We recommend restructuring the Utility Billing and Collections team under Finance and ensure the proper personnel involved with the processes have visibility to account details to assist with eliminating reconciliation discrepancies.

The Internal Audit Department would like to thank everyone for their time and attention during the review process.

Respectfully submitted,

Tracey Shockley, MBA, CFE, CCA
Internal Audit Director

Management Responses:

Finding 1:

Throughout the audit, we acknowledged the existence of this challenge. However, our awareness was confined to the 2nd quarter, prompting the need for ITS assistance to address the challenge of the year being tied to the current bill due as opposed to the past due bill. It is imperative to implement this necessary change for the accurate application of customer payments within the system. This adjustment is crucial to ensure that past due amounts are applied appropriately with the most recently received payment, rather than the payment being associated with the current bill due amount. This proposed targeted modification will enhance the efficiency of customer payment application processes. ITS is currently working to find a solution with the present configuration of the billing system.

ITS is working with Water Utilities to integrate a new Tyler Munis API system that should remediate the current challenge addressed in this finding and provide additional efficiencies with the billing and collection system.

Responsible: Lance McAvoy to Follow-up

Implementation Date: Before end of 2024

Assessment of Managements Responses:

IA recognizes management is working towards a solution to correct the past due amounts. During the process review it was not brought to IA's attention and is was not until IA inquired with Customer Service regarding duplicate customer names and outstanding amounts for current customers. At that time, Utilities acknowledged that there were active customers with past due amounts and the challenge Customer Service was having applying payments to those past due amounts. Additionally, Utilities stated they were beginning to apply payments to past due amounts, however, in December 2023 when IA followed up with management the procedure had not been implemented as they had previously stated.

Until ITS is able to integrate a new API system, Utilities should request the ability to place alerts on active customers with past due amounts. When payments are to be applied, an alert box or specific color could

possibly be added to the account that will identify the customer has past due amount(s) that the payment needs to be applied to before applying it to the current due amount. Additionally, this possible option could be implemented sooner rather than waiting almost a year as stated for their implementation date for ITS to assist.

Finding 2:

Water Utilities acknowledges and agrees with this finding. In response to this, Water Utilities is committed to emphasizing a high-level focus on enhancing and evolving these procedures in 2024.

Responsible: Lance McAvoy

Implementation Date: End of third quarter 2024

Assessment of Managements Responses:

IA does not agree with management's timeline. Management should review and update the SOP's sooner than the end of the third quarter because some of the standard operating procedures have not been reviewed since 2020 and 2021.

Finding 3:

Water Utilities acknowledges and agrees with this finding. Prior to Munis, there was no write off procedure as this was a nightly procedure processed by the ArcBest software based on criteria set of sending an account to collections after 90 days of account being closed. There has never been a review of the write off list.

Water Utilities, working with the Finance Department, developed the current procedure.

Water Utilities will evaluate and determine the most efficient approval process for the account write-off process. This will be segmented between the Citizen Services Manager and Deputy Director of Business Administration.

Responsible: Lance McAvoy

Implementation Date: End of second quarter 2024

Assessment of Managements Responses:

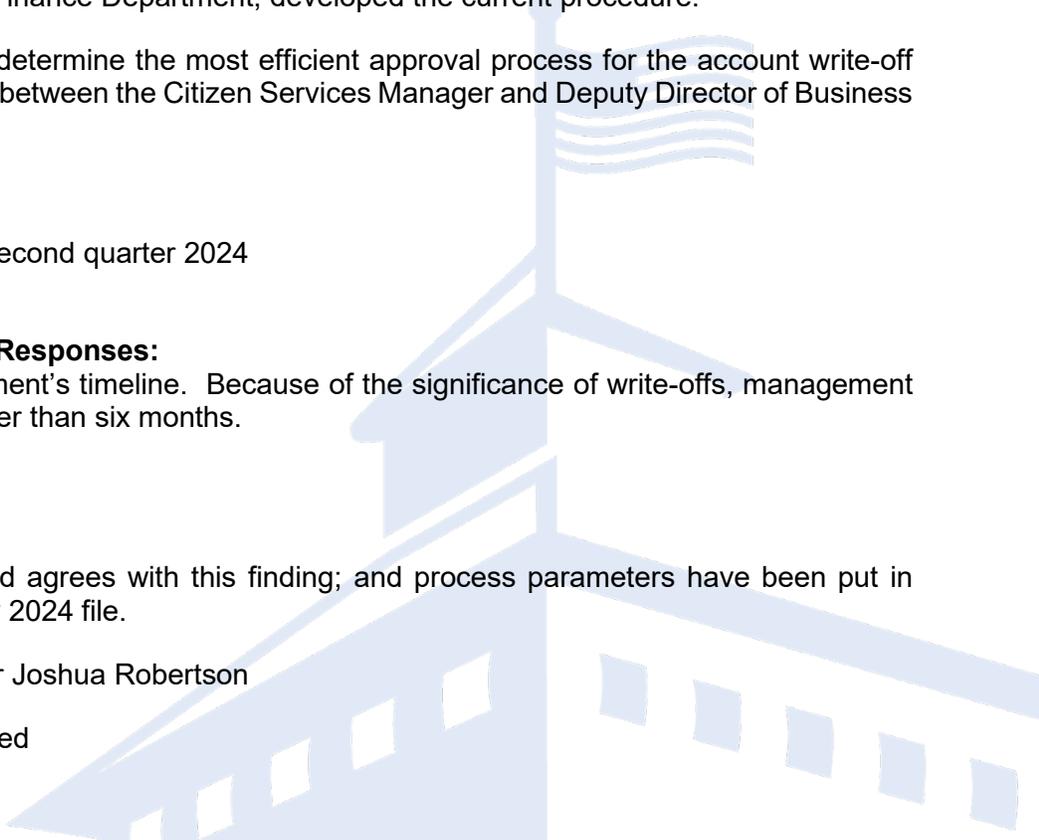
IA does not agree with management's timeline. Because of the significance of write-offs, management should institute procedures sooner than six months.

Finding 4:

Water Utilities acknowledges and agrees with this finding; and process parameters have been put in place beginning with the January 2024 file.

Responsible: Completed Under Joshua Robertson

Implementation Date: Completed



Assessment of Managements Responses:

IA agrees with management’s response and timeline.

Finding 5:

Water Utilities was not aware of the \$78,000 discrepancy in Account Receivables until it was brought to our attention by Internal Audit. In the past, Finance would bring these to Water Utilities’ attention and both departments would open a joint investigation to determine the cause of the discrepancy and mitigate it. Water Utilities will schedule a meeting with Finance to discover the error for reconciliation and work jointly to remediate the discrepancy.

Utility Billing & Collections team having no visibility into the detailed general ledger balances or what is being reported on the financials on the Schedule of Utility Billing Receivables is not a function of the Water Utilities Billing & Collection Team. As understood by the Water Utilities Management, this is a decision of the Finance Department not to grant visibility.

Water Utility Billing & Collections is not a standalone unit and is part of the Citizen’s Service. The entire Citizen’s Service Division would need to be moved under Finance to ensure both continuity of operations and proper controls that have been established are maintained. The structure of the City is not left to one department or multiple departments, but is based on sound decisions of City Administration and the Board of Directors. At this point in time, the Board of Directors has agreed to leave the current structure in place. If additional visibility is needed, perhaps read-only access could be provided to all parties to ensure the proper safeguards are maintained and assist with eliminating reconciliation discrepancies.

Water Utilities is not for nor against the possible restructure of the Citizen’s Service Division under the Finance Department, but it would be remiss in its fiduciary duties to point out other concerns and possible solutions.

Responsible: Lance McAvoy & Joshua Roberson (Water Utilities) for Reconciliation Meeting with Finance Department

Implementation Date: Meeting Scheduled End of First Quarter 2024

Assessment of Managements Responses:

IA acknowledges management’s responses.

