



## Memorandum

TO: Keith Burke, Community Services Director  
Marilyn DeRosa, Engineering and Transportation Director

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  
Shawn Wagner, Deputy Community Services Director – Park and Recreation

DATE: June 28, 2021

SUBJECT: FINAL REPORT: Accounts Receivable Part 1 (Transit and Community Services)

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 1 (Transit & Community Services)

June 28, 2021

## Project Team:

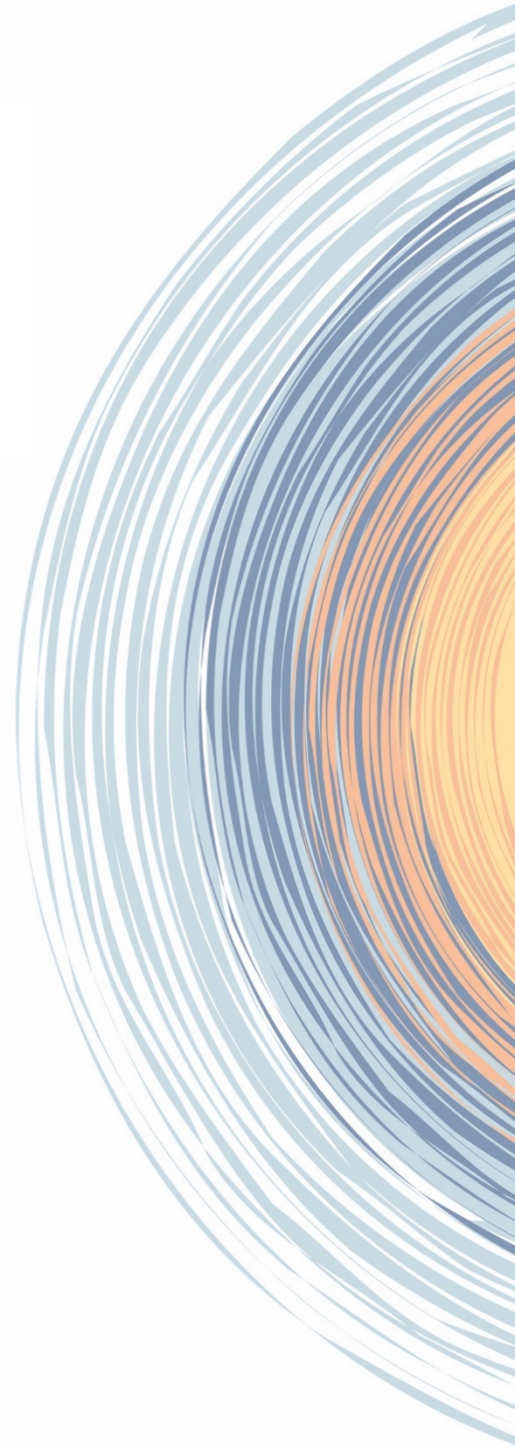
Bill Greene, City Auditor  
Keith Smith, Sr. Auditor

## 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 the fiscal year end 2020 Accounts Receivable balances for Transit Special Revenue and Community Services. For Transit Special Revenue, we verified if the accounts receivable balance reported in the City's annual financial report was properly supported by documentation. For Community Services, we verified if:

- a sample of individual clients' accounts receivable balances agreed to supporting documentation;
- account adjustment practices were properly controlled;
- collections and write off processes included adequate control procedures.

### **Background**

Accounts Receivable, in simple terms, is money owed to the City by its debtors. The City's total governmental fund accounts receivable, as reported in the annual financial statement of June 30, 2020, was \$8,048,795. Of that total, this audit report (Part 1 of our audit) focused on the following:

Transit Special Revenue AR	\$1,149,339
Community Services/Activenet AR	\$363,686

The City also reported \$14,297,144 in account receivable in proprietary funds. In Part 2 of our audit (to be issued in a separate report) we will focus on Water/Wastewater and Solid Waste's portion of that fund's accounts receivable, totaling about \$12.5M.

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. Transit Special Revenue**

Documentation provided to IAO adequately supported the accounts receivable balance recorded in the City's financial statements. Grant and contract documentation, along with checks and cash receipts, were reviewed and matched to the accounts receivable amounts recorded on the City's financial statements.

#### **2. Community Services/Activenet AR**

Formal policies governing many aspects of the accounts receivable process need to be developed and/or updated to strengthen internal controls. Some client account balances are over three years old, were not forwarded to collection for potential recovery, and have not been written off. Additionally, controls over account balance adjustments should include supervisory review or approval.

## **Recommendations**

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

**Department Responses to Recommendations**

<p><b>Rec. 2.1: Management should consider whether to continue to allow partial payment arrangements. If allowed, develop a policy that requires, at a minimum, written payment arrangements acknowledged by the client detailing the amount owed, dates and amounts of payments due. Management should also consider preventing customers from booking additional reservations until payment in full is received from previous, unpaid reservations.</b></p>	
<p><b>Response:</b> The use of payment plans will only occur in limited circumstances and should be determined by the Coordinator responsible for the activity or facility and their Supervisor/Manager</p> <ul style="list-style-type: none"> <li>• Payment plans will only be issued by staff with supervisor approval</li> <li>• Payment plans for activity registration, large group ramada reservations, and on-going field and facility reservations may be placed on a payment plan with clearly defined requirements and customer acknowledgement for when payments are due.</li> <li>• Ramada reservations (neighborhood ramadas and Kiwanis Ramadas 1-15) should not be placed on payment plans. Amount owed should be paid at the time of the reservation.</li> <li>• Large group and corporate reservations as well as on-going facility reservations may be placed on payment plans with a clearly defined requirement and customer acknowledgement of payment due dates.</li> </ul> <p>Additional information regarding payment plans can be found in the Monitoring ACTIVE Net Unpaid Balances protocols.</p> <p>Please note the target date accounts for needed staff training timeline.</p> <p>Responsible contacts: Josh Bell and Kelly Rafferty</p>	<p><b><u>Target Date:</u></b> 9/5/2021</p>
<p><b><i>Explanation, Target Date &gt; 90 Days: N/A</i></b></p>	
<p><b>Rec. 2.2: Coordinate with the City Controller to formalize and implement department policies that address the monitoring accounts receivable, collection of outstanding balances, and the write-off of stale debt.</b></p>	
<p><b>Response:</b> Recreation Services staff have worked with staff from Internal Audit and Accounting to update and refine existing collection procedures. Coordinators and their Supervisor/Manager will be responsible for reviewing their account receivables (AR) report monthly. In addition, the ACTIVE Net Coordinator will review the AR report monthly with their Manager. If there are any outstanding balances not being actively addressed, the Deputy Community Services Director: Parks and Recreation will be notified, and appropriate action will be taken.</p>	<p><b><u>Target Date:</u></b> 9/5/2021</p>

The following is a summary of the updated protocols.

**1-30 Days Past Due**

- Review & verify customer account information to confirm unpaid balance is accurate
- Update account, permits, etc., if correction needed
- Communicate unpaid balance to customer via phone & e-mail; get customer acknowledgement
- Place an alert on customer account re: unpaid balance; payment is owed before any new transactions can be processed

**31-60 Days Past Due**

- Review customer account information and send first formal collections communication
- Payment due within 20 business days

**61-90 Days Past Due**

- Review customer account information and send second & final formal collections communication
- Payment due within 10 business days
- Inform customer this is final communication; unpaid balance will be sent to collections agency if payment is not received

**90+ Days Past Due**

- Connect with ACTIVE Net Coordinator to submit unpaid balance to collections
- Coordinator overseeing unpaid balance should suspend customer's ACTIVE Net account and put an alert on account re: suspension

These collection procedures also identify the process for reconciling unpaid balance and bad debit write off prior to the fiscal year completion, which involves additional coordination with Accounting and the responsible Coordinator as well as their Supervisor/Manager.

Additional information regarding accounts receivable and collection procedures can be found in the Monitoring of ACTIVE Net Unpaid Balances and Collection Procedures for Recreation protocols.

Please note the target date accounts for needed staff training timeline.

Responsible contacts: Josh Bell and Kelly Rafferty

***Explanation, Target Date > 90 Days:*** N/A

**Rec. 2.3: Ensure that outstanding accounts are sent to the contracted collection agency when appropriate and include related procedures in written policy.**

***Response:*** Recreation Services staff have updated their collection procedures and monitoring of unpaid balances protocols. If there is

***Target Date:***  
9/5/2021

a need to send an unpaid balance to the City's contracted collection agency, the ACTIVE Net Coordinator will work with the responsible Coordinator and their Supervisor/Manager to submit.

A collections process for the unpaid balance has been established with the collection agency. The agency will provide a monthly report on the status of their collection attempts. If a collection is successful, the agency will send payment to the Recreation Services ACTIVE Net Coordinator and they will in turn follow up with the respective Coordinator and supervisor to reconcile the unpaid balance and address the account status. If a customer wants to pay off the balance that exists on their suspended account after it has been sent to collections, they will be referred to the ACTIVE Net Coordinator.

Sending an unpaid balance to a collection agency is the last resort and all attempts will be made to avoid sending the unpaid balance to collections. Ultimately, we want to maintain a positive relationship with the customer that continues into the future so it is vital to establish clear communication of payment deadlines right away with the customer and ensure customer transaction records are accurate to avoid any errors or accounting issues.

Additional information regarding accounts receivable and collection procedures can be found in the Monitoring of ACTIVE Net Unpaid Balances and Collection Procedures for Recreation protocols.

Please note the target date accounts for needed staff training timeline.

Responsible contacts: Josh Bell and Kelly Rafferty

***Explanation, Target Date > 90 Days: N/A***

**Rec. 2.4: Work with the Controller to write off the \$171,036 in accounts receivable that has been outstanding in excess of three years if it confirmed that the City is prevented by law from collecting these funds. Otherwise, collections efforts should be attempted.**

**Response:** Approximately 70% of the amount listed above is attributed to the previous software responsible for managing recreation services business operations, CLASS. When transitioning from CLASS to the current business operations management system, ACTIVE Net, there were account balances that were not transitioned or were transitioned but not removed from CLASS. This resulted in duplicate postings to the City's general ledger. Unfortunately, this error was not identified until the recent audit. The remaining 30% is attributed to unpaid balances on accounts that were not collected and are no longer eligible to be collected by law.

**Target Date:**  
6/30/2021

<p>Recreation Services staff are working with Accounting staff to ensure that the amounts identified by Internal Audit are appropriately written off to a bad debt account. All eligible unpaid balances will be forwarded to the City's collection agency. Recreation Services and Accounting staff are collaboratively working to update the Recreation Services accounts receivable, collection, and bad debt protocols.</p> <p>Responsible contacts: Josh Bell and Kelly Rafferty</p>	
<p><b><i>Explanation, Target Date &gt; 90 Days: N/A</i></b></p>	
<p><b>Rec. 2.5: Modify ACTIVE Net account access profiles for front desk staff to prevent the ability to delete or adjust fees or reconfigure system workflow to only allow adjustments with corresponding supervisory approval.</b></p>	
<p><b>Response:</b> The ACTIVE Net Coordinator is working the Recreation Services Leadership team to identify the functions required for part time temporary frontline staff working at the customer service desk. Additional ACTIVE Net profiles will be created to ensure there is continuity in customer service while prescribing to appropriate accounting protocols including restrictions on adjusting or deleting fees without supervisor approval.</p> <p>Please note the target date accounts for needed staff training timeline.</p> <p>Responsible contacts: Josh Bell and Kelly Rafferty</p>	<p><b><u>Target Date:</u></b> 9/5/2021</p>
<p><b><i>Explanation, Target Date &gt; 90 Days: N/A</i></b></p>	



## **1 – Transit Special Revenue Accounts Receivable**

### **Background**

The accounts receivable balance in the City's FY2020 financial statement relating to Transit Special Revenue was \$1,149,339. This balance includes three items:

<b>Purpose</b>	<b>Amount</b>
Accrue ASU's contribution to the FLASH and ORBIT bus system operations	\$653,044
Accrue Local Transportation Assistance Fund (AZ Lottery) LTAF grant contribution to ORBIT bus system operations	\$477,202
Accrue transit-related cash receipts received in July and August 2020	\$19,093

The top two transactions were for funds owed to the City in FY2020 but not received until shortly after FY2021 began. This resulted in the City recording an accounts receivable balance in FY2020 since the funds were not received by June 30<sup>th</sup>, then reversing the transaction in FY2021 once funds were received and deposited. The third item, which was not audited due to the immaterial amount, was for other various transit-related funds owed to the City in FY 2020 but received and deposited after the June 30<sup>th</sup> cut-off.

### **Approach**

For the two accrual transactions related to bus operations, the IAO reviewed supporting documentation such as the written agreement with ASU, the grant documents from the LTAF, checks received by the City, and cash receipt documents showing deposits into cost centers.

### **Results**

***The transactions reviewed that comprised the FY2020 accounts receivable for Transit Special Revenue demonstrated that amounts were properly supported.***

No issues or discrepancies were noted when reviewing documentation supporting the transactions or comparing receivable amounts.

### **Recommendation**

None. For information only.

## **2 – Community Services Accounts Receivable**

### **Background**

The accounts receivable balance on the City's FY2020 financial statement relating to Community Services totaled \$363,686. This balance includes two accounts:

<b>Purpose</b>	<b>Amount</b>
Community Services	\$117,704
Activenet	\$245,982

The Community Services account receivable balance has been carried forward on the financial statements since FY2017 from the previous CLASS (now replaced) registration system and is uncollectable (see Results below). The Activenet balance represents the balance due from accounts in the current registration system.

### **Approach**

IAO audited three areas of accounts receivable in Community Services:

- Account Balance verification
- Monitoring receivables including collections and write-offs
- Account adjustment process

IAO reviewed documentation in the registration/reservation system that supported the balances reported for a sample of accounts (both organizational and individual accounts). For collections and write-offs and account adjustment process, IAO reviewed any written policies and procedures available and assessed whether effective controls were in place over each process. The account adjustment process was reviewed to determine which staff were granted system authority to make account balance adjustments and whether there was supervisory approval or review of adjustments.

### **Results**

**The account balances we reviewed were supported by documentation in the registration/reservation system; however, some organizations were allowed payment plans that are not documented in writing which causes difficulty with tracking payment amounts and due dates. No policies exist that address such payment arrangements, introducing the risk of inconsistent business practices.**

We selected a sample of accounts for review from the March 21, 2021 aging report from Activenet. Individual accounts with balances in excess of \$1,000 and organizational accounts in excess of \$5,000 were selected for review. This resulted in 7 accounts totaling \$66,455 (39% of dollars) reviewed (of a total of \$169,711). We reviewed these accounts to determine if the amount listed on the Activenet aging report was supported

by the receivables balance in Activenet and the account invoices/reservation permits. No issues or exceptions were noted with balances reported. During our review, we identified some organizations with hundreds of individual field reservations that resulted in larger balances due (e.g., little leagues and other youth sports leagues). Fields are booked in four-month increments (May-Aug, Sept-Dec, and Jan-Apr). Most organizations pay up front. However, some with large balances are asked by staff to pay half up front and make payments for the remainder of the balance. These payment agreements are made verbally between the organizations and community service staff and not documented in writing. Without a policy requiring written agreements, it is difficult for both parties to track and enforce payment arrangements, amounts, and deadlines and ensure consistency among the various organizations.

**Accounts receivable monitoring, collections, and write-off policies are outdated; some are still in draft form and are not being followed. This results in inconsistent processing and collection of funds due to the City.**

A general Community Service accounts receivable policy has been in draft form since 2018 but not updated and isn't complete. Also, the Kiwanis Recreation Center has a policy specific to that area. Staff stated that the policies are outdated, in draft form, and are not currently being followed.

**Outstanding accounts are not monitored and are not sent to the contracted collection agency which increases the likelihood that these funds will become uncollectible.**

There is no process or policy in place for monitoring outstanding account balances and staff was unaware of the collection agency contracted for use by City departments. IAO contacted Accounting and Community Services was subsequently provided with contact information for the collection agency and provided some direction on collection arrangement options.

**\$171,036 in receivables have been outstanding over three years and should be written off if the City is prevented by law from collecting. Including stale debt in accounts receivable also overstates the reported balance in the City's financial statements.**

According to the City's Controller, ARS 12-543 does not allow debt over three years to be collected. IAO noted two instances where debts accumulated in excess of three years in Community Services.

IAO discovered \$117,704 in accounts receivable on the books from the previous registration system in Community Services called CLASS. This amount has been carried over on the financial statements since 2017. No collection attempts were made and the accounts were not migrated to the new Activenet system. In addition, based on aging reports and additional analysis by the Controller, \$53,332 in accounts receivable from Activenet is also over three years old.

**Activenet account access profiles for the front desk staff provide authority for staff to adjust or delete fees without Recreation Coordinator approval. This allows staff to make unsupported adjustments to account balances.**

Various account profiles have been established in Activenet to provide levels of access to the system to perform needed functions. According to informal procedures, front desk staff should obtain supervisory approval for any deletion or adjustment of fees. However, their system access profile allows them to perform these functions without supervisory intervention or review.

## **Recommendations**

2.1 Management should consider whether to continue to allow partial payment arrangements. If allowed, develop a policy that requires, at a minimum, written payment arrangements acknowledged by the client detailing the amount owed, dates and amounts of payments due. Management should also consider preventing customers from booking additional reservations until payment in full is received from previous, unpaid reservations.

2.2 Coordinate with the City Controller to formalize and implement department policies that address the monitoring accounts receivable, collection of outstanding balances, and write off of stale debt.

2.3 Ensure that outstanding accounts are sent to the contracted collection agency when appropriate and include related procedures in written policy.

2.4 Work with the Controller to write off the \$171,036 in accounts receivable that has been outstanding in excess of three years if it is confirmed that the City is prevented by law from collecting these funds. Otherwise, collections efforts should be attempted.

2.5 Modify Activenet account access profiles for front desk staff to prevent the ability to delete or adjust fees or reconfigure system workflow to only allow adjustments with corresponding supervisory approval.

## **Scope and Methods**

### **Scope**

This audit covered Transit Special Revenue and Community Services accounts receivable balances as reported in the City's financial statements for FY 2020.

### **Methods**

We used the following methods to complete this audit:

- Interviewed staff to gather information on current policies and practices related to accounts receivable collections, write-offs, and account adjustments.
- Reviewed supporting documentation for account receivable balances
- Reconciled accounts receivable balances reported on the City's financial statements to appropriate supporting documentation

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.