

August 29, 2003

**Internal Audit Report 2003-9**  
**Accounts Receivable**  
**Finance Department**

**Introduction.** According to Anchorage Municipal Code (AMC), Title 6, the Chief Fiscal Officer is responsible for the billing, collecting, and write-off of Municipal accounts receivable. However, over the years, some of the duties, such as monitoring, tracking, and billing, were transferred to other departments. Currently, the Treasury Division handles accounts receivable contained on the PeopleSoft Accounts Receivable System (PSARS), and real and personal property taxes. Six departments utilize the PSARS for all or part of their billing for various services. These departments include: Anchorage Police Department; Anchorage Fire Department; Cultural and Recreational Services; Planning, Development, and Public Works; Public Transportation Department; and the Purchasing Department. We also found stand-alone accounts receivable systems maintained by the Community Health Services Division, Risk Management Division, Municipal Wide Financial Processing Section, and Animal Care and Control Services. In addition, collection for ambulance services has been contracted out by the Fire Department to Ambulance Billing Services. Delinquent accounts are sent for collection to Alaska Financial Services (AFS), a contracted collection agency.

The Municipality is dependent upon the collection of taxes and other revenue to provide services to its citizens. As the Municipality continues to grow, it has experienced growth in both revenue and demands for services. In recent years, the Municipality has been under pressure to maximize revenue and provide the highest level of possible service within budget constraints. In order to help accomplish this, an efficient collection system is required. This report discusses the management of the Municipality's accounts receivable and efforts to collect on amounts owed. Management of receivables includes the methods and procedures adopted by departments to ensure that amounts owed are collected. It also encompasses systems for measuring, reporting, and monitoring performance.

The objective of any system of receivables management is to maximize collection of amounts due while minimizing bad debt losses. In some cases, write-offs of bad debts are necessary to provide financial managers with an accurate picture of the real value of outstanding accounts. Prudent business practice normally dictates that resources should not be wasted on accounts that have little or no chance of collection, or where the cost of collection clearly exceeds the value of the account. Effective receivable systems should contain most of the following elements:

- Prompt and accurate recording of amounts due and identification of debtors,
- Timely billing of outstanding accounts,
- Accounting systems that provide management with timely information,
- A well-conceived collection process,
- Use of commercial credit bureaus and collection agencies and litigation where potential gain exceeds the cost,
- Fair reporting of the value of outstanding accounts receivable as well as recording and reporting information on collection effectiveness, and
- Write-off of accounts that are clearly not collectible.

The 2002 Comprehensive Annual Financial Report shows the Municipality with a \$22.2 million accounts receivable balance and a \$15.2 million allowance for uncollectible accounts<sup>1</sup>. A large part of this accounts receivable balance is delinquent fees and fines. Because of these large balances, it is critical to have effective accounts receivable systems to maximize collection.

**Objective and Scope.** The objective of this audit was to determine the methodology, effectiveness, and accuracy of the Municipality's accounts receivable functions and systems. This audit was limited to general government and did not include enterprise activities. Our audit included a review of 35 judgmentally selected accounts receivable as of December 18, 2002. These accounts were

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<sup>1</sup> This amount may not represent the actual uncollected or outstanding receivables as of December 31, 2002, because of various reporting standards.

selected based on age and dollar value. Our audit also included a review of 50 randomly selected Bills For Collection received by the Finance Department between May 13, 2002, and June 21, 2002. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was requested by the Assembly, and is part of the 2002/2003 Audit Plan.

**Overall Evaluation.** The Municipality's accounts receivable have not been managed effectively. Over the years, the custody of accounts receivable has been decentralized to various departments, the collection effort does not appear to have been effective, delinquent accounts have not always been sent to a collection agency, and accounts have not been written-off in a routine and timely manner. Additionally, departments have not aged accounts receivable to help identify problem customers; nor is there adequate follow-up on delinquent accounts to help determine why they have not been paid or sent to collections. Without adequate follow-up, invalid receivables distort the true value of the receivable balance. In addition, at the time of our audit work, Controller staff were unable to provide the methodology used to calculate "Allowance for Uncollectibles" in the Comprehensive Annual Financial Report. Furthermore, significant delays in the billing process have contributed to untimely collection of past due accounts. Our review of the billing process revealed that it took an average of 42 days from the date of service until an invoice was generated. Finally, the Municipality's Investing for Results program did not have adequate performance measures, for the Finance Department, regarding accounts receivable. Some of the problems identified in this report could have been avoided if the Finance Department had implemented an accounts receivable policy and procedure when the PeopleSoft Financial system was fully functional.

**Management Comments.** Management stated, "The Finance Department concurs that meaningful improvement is needed in the oversight and management of the City's accounts receivable, most notably in the Delinquent Criminal Fines/Fees (DCF) receivable which accounts for \$16 million of the \$22 million cited in the auditor's report. Given the dollar magnitude and age of these receivables it is quite apparent that inadequate attention has been directed to managing the DCF receivable and the other miscellaneous receivables in a comprehensive, efficient and effective manner."

## FINDINGS AND RECOMMENDATIONS

### 1. **Municipal Accounts Receivable Not Effectively Managed.**

- a. **Finding.** Municipal accounts receivable have not been effectively managed. Our review of Municipal accounts receivable revealed a variety of problems. Over the years, the custody of accounts receivable has been decentralized to various departments, the collection effort does not appear to have been effective, delinquent accounts have not always been sent to a collection agency, and accounts have not been written-off in a routine and timely manner. As a result, we found accounts receivable dating back to 1984. Our discussion with Anchorage Parking Authority personnel disclosed that all accounts receivable over 120 days old are automatically sent to the collection agency. One cause for the problems noted was the absence of a policy and procedure to help effectively manage accounts receivable, both on the PeopleSoft system and stand-alone systems. A policy and procedure on managing PeopleSoft accounts receivable is currently being finalized; however, accounts receivable in PeopleSoft constitute only a small part of the total Municipal accounts receivable. AMC 6.30.060 states:

“All revenues shall be collected by the chief fiscal officer under such regulations as may be promulgated in accordance with the administrative code.

“The chief fiscal officer shall be responsible for billing and collecting all real and personal property taxes, sales taxes and miscellaneous revenues of the municipality.”

The following describes each accounts receivable system we found during the audit:

- ***PSARS Accounts Receivable*** - Only about \$1.0 million of the \$22.2 million of Municipal general government accounts receivable are included in the PSARS. Although some accounts receivable found on the PSARS have been written-off,

of the 3,031 accounts receivable we reviewed, 27 percent of them were over one year old, averaging 732 days past due. The following table shows the aging, dollar amount, and number of miscellaneous accounts receivable as of December 18, 2002, as recorded in the PSARS.

<b>Miscellaneous PeopleSoft Accounts Receivable as of December 18, 2002</b>			
<u><b>Aging</b></u>	<u><b>Amount</b></u>	<u><b>Accounts</b></u>	<u><b>Percent of Accounts</b></u>
Current	\$219,628	1,152	38%
31-60 days	138,346	178	6%
61-90 days	35,144	93	3%
91-120 days	171,333	174	6%
121-365 days	203,294	605	20%
Over 365 days	<u>278,911</u>	<u>829</u>	<u>27%</u>
<b>Totals:</b>	<u>\$1,046,656</u>	<u>3,031</u>	<u>100%</u>

Source: PeopleSoft Financial Query

- ***Real and Personal Property Tax Accounts Receivable*** - As of December 31, 2002, there was about \$8.6 million in delinquent property taxes. These delinquent taxes included both real property taxes and personal property taxes. Detailed information concerning these accounts was maintained on a computer system separate from PeopleSoft; however, summary account data was transferred to PeopleSoft. According to Treasury Division personnel, for real property taxes, if no payment has been received for three years then foreclosure action is taken. For personal property taxes, some accounts are sent to the collection agency and other accounts are written-off.

- ***Delinquent Fees and Fines*** - There are nearly \$16 million in delinquent fees and fines dating back to 1984, of which approximately 90 percent have been classified as uncollectible in the Comprehensive Annual Financial Report. In addition, these fees and fines were not reported in the Comprehensive Annual Financial Report until 2001. These fees and fines are found on the Municipality's Delinquent Criminal Fine Database and include items such as traffic citations, cost of imprisonment fees, and indigent defense fees, most of which have been turned over to the Municipality by the court system. Two employees in the Municipal Wide Financial Processing Section try to match these accounts with Permanent Fund Dividends (PFD) to facilitate payment. However, sufficient PFD funds may not be available to pay the debt since other organizations may have claim on this money prior to the Municipality. If a match can be made with the PFD, but no money is received, the account is not sent to collections. Therefore, accounts may stay open for years even though no payments are received. However, accounts are sent to collections if: 1) the account has not been matched to the PFD for three consecutive years; 2) the account has not received a payment for one year; and 3) the account is in delinquent status.

<b>Delinquent Fees and Fines as of April 14, 2003</b>		
<u><b>Aging</b></u>	<u><b>Amount</b></u>	<u><b>Percent</b></u>
0 -1 Year	\$4,590,033	29%
Over 1 Year	3,256,854	20%
Over 2 Years	2,355,635	15%
Over 3 Years	1,763,466	11%
Over 4 Years and More	<u>4,006,517</u>	<u>25%</u>
<b>Totals:</b>	<u>\$15,972,505</u>	<u>100%</u>
<hr style="width: 20%; margin-left: 0;"/> Source: Municipality Delinquent Criminal Fine Database		

- Animal Care and Control Services Accounts Receivable*** - Accounts receivable are maintained on a stand-alone system by the Animal Care and Control Services contractor. The contractor's policy and procedure manual does not contain direction on how to manage accounts receivable. As of March 2003, there was \$340,875 in accounts receivable, which includes \$308,950 sent to collections. However, there were 78 accounts totaling \$7,725, from 1997 to 1999, that had not been sent to collections.

<b>Animal Care and Control Services Accounts Receivable as of March 31, 2003</b>			
<u><b>Aging</b></u>	<u><b>Amount</b></u>	<u><b>Accounts</b></u>	<u><b>Percent of Accounts</b></u>
Current	\$24,200	240	6%
91 - 365 Days	76,500	753	20%
Over 1 Year	88,475	957	26%
Over 2 Years	58,150	662	18%
Over 3 Years	39,400	427	12%
Over 4 Years and More	<u>54,150</u>	<u>670</u>	<u>18%</u>
<b>Totals:</b>	<u>\$340,875</u>	<u>3,709</u>	<u>100%</u>
<hr style="width: 20%; margin-left: 0;"/> Source: Animal Care and Control Services			

Further audit work has revealed that Animal Care and Control Services has made considerable progress in working their accounts receivable. As of July 31, 2003, the oldest accounts receivable that had not been sent to collections was from March 2003.

- **Community Health Services Accounts Receivable** - Accounts receivable are maintained on a stand-alone system by the Community Health Services Division. Of the \$69,000 of accounts receivable for the Community Health Services Division, about \$56,000 were over one year old.

<b>Community Health Services Accounts Receivable as of March 11, 2003</b>			
<u><b>Aging</b></u>	<u><b>Amount</b></u>	<u><b>Clients</b></u>	<u><b>Percent of Clients</b></u>
0 - 6 Months	\$9,257	750	14%
7 - 12 Months	3,875	476	9%
Over 1 Year	13,150	941	17%
Over 2 Years	11,246	930	17%
Over 3 Years	7,039	902	16%
Over 4 Years	14,842	991	18%
Over 5 Years	<u>9,734</u>	<u>536</u>	<u>10%</u>
<b>Totals:</b>	<u>\$69,143</u>	<u>5,526</u>	<u>100%</u>
Source: Health and Human Services			

- **Risk Management Accounts Receivable** - Accounts receivable are maintained on a stand-alone database in the Risk Management Division. Of the \$1 million in accounts receivable for Risk Management, about \$800,000 were over 1 year old.

<b>Risk Management Division</b>			
<b>Accounts Receivable</b>			
<b>as of May 7, 2003</b>			
<u><b>Aging</b></u>	<u><b>Amount</b></u>	<u><b>Accounts</b></u>	<u><b>Percent of Accounts</b></u>
Unknown	\$3,621	4	2%
0 - 6 Months	124,503	38	14%
7 - 12 Months	74,058	44	16%
Over 1 Year	263,394	66	25%
Over 2 Years	74,973	45	17%
Over 3 Years	69,299	26	10%
Over 4 Years	95,172	15	6%
Over 5 Years	28,819	9	3%
Over 6 Years	<u>268,193</u>	<u>20</u>	<u>7%</u>
<b>Totals:</b>	<u>\$1,002,032</u>	<u>267</u>	<u>100%</u>

Source: Risk Management Division

- b. **Recommendation.** The Chief Fiscal Officer should ensure an accounts receivable policy and procedure is developed and implemented to provide direction and guidance for managing all Municipal accounts receivable. Specifically, the policy and procedure should address all accounts receivable, whether they are found on the PeopleSoft system or stand-alone systems. In addition, the policy and procedure should address collection efforts, routine aging of accounts, standard time frames for sending accounts to a collection agency, and timely write-off of uncollectible accounts.
- c. **Management Comments.** Management stated, “**Management concurs with the finding in that several of the various types of accounts receivable can be managed more effectively.**”

“Management intends to carefully analyze all miscellaneous accounts receivable cited in the auditor’s report to pursue collection and cleanup of old accounts receivable and to ensure that best practices (e.g., Anchorage Parking Authority) are applied to all departments with known accounts receivable.

“A newly developed accounts receivable P&P focuses on a proactive approach to managing accounts receivable with emphasis on managing the critical and detailed information of the transaction to be captured before and at the time of the transaction, as well as timely processing and collection effort thereafter. This P&P requires similar attributes to those enabling the success enjoyed by APA in managing its accounts receivable - clearly communicated terms of payment, standards for managing disputes, guidelines for the capture of sufficient competent information before and at the time of the transaction, performance standards for timeliness of invoices and statements, and time guidelines for write-off and referral to the collection agency (90 days past due).

“Comments related to the various accounts receivable addressed in the audit report are as follows:

- PSAR Accounts Receivable

Improvements are underway. In August 2003 unresolved general government accounts more than 120 days past due have been reduced to less than \$50,000 (as compared to the \$482,205 balance cited in the auditor’s report).

- Real & Personal Property Tax Accounts Receivable

The collectibility of real property is 100% and personal property is 98% in the 2 years following original billing. To illustrate the cyclical nature and the high degree of timely collectibility of the tax receivable, the \$8.6 million tax receivable balance at 12/31/02 was reduced to \$3.8 million by 7/31/03.

- Delinquent Fees & Fines (DCF)

This receivable is clearly the most dominant in terms of dollars at stake, number of accounts and aging. Management is continuing to analyze the extent of the old DCF accounts and their potential collectibility. The backlog of monies owed to the City is evidence that this receivable has not been adequately managed over the years. A work group has been formed between the DCF receivable clerk, Treasury, APD and the Manager's Office to discuss potential strategies for addressing the old DCF receivable and managing the current and future DCF receivable. By the end of 2003 management expects that a significant percentage of the receivable will be cleaned up through collections coming in from PFD and additional in-house and external collection efforts.

Although a number of the DCF components have low collectibility from the start (e.g., incarcerated individuals, indigent defendants underage defendants and multiple offenders with no intent or ability to pay) this broad category of receivable has great potential for additional revenue to the City going forward, particularly with respect to Traffic Citations/Minor Violations.

All elements of the DCF billing and collections process must be looked at and a formal, comprehensive collection strategy will need to be developed, including sufficiency of internal and external resources. Management

intends to reorganize the Finance Department such that staff associated with the DCF receivable and the PSAR receivable are co-located with other billing and collection staff within a single work group whose sole mission is to bill and collect municipal revenues.

- Animal Care & Control Services Accounts Receivable

Treasury will contact the department to discuss the required processes and standards for managing Municipal receivables outlined in the new accounts receivable P&P. Treasurer and Controller will evaluate the appropriateness of the stand-alone billing/receivables system being used and will make a recommendation to CFO to either approve the usage of that system or require that the PSAR system be used by the contractor. Regardless of the billing/receivables system used, Treasury will monitor the effectiveness of the contractor's management of this receivable system and provide feedback as necessary. Steps will be taken to ensure that information related to this receivable will be recorded in the PeopleSoft Financial system and results of operations will be reported in future Consolidated Annual Financial Reports (CAFRs).

- Community Health Services Accounts Receivable

Same response as above.

- Risk Management Accounts Receivable

Same response as above.

**Special Note Regarding Risk Management Amounts Owed:** The accounts receivable P&P recognizes the special provisions related to Risk

Management accounts. Risk Management claims deal with damage to Municipal property and employee Workers' Compensation (W/C) injury losses, which is a civil Tort claim, rather than a delinquent account. As such, the Risk Manager performs an evidentiary process as licensed Property and Casualty Adjusters to ascertain, quantify, adjust for value, compromise and settle, and then collect reimbursement for the damage to Municipality property as per the Alaska Fair Settlement Claims Act. Therefore resolution of these accounts does not involve routine billing, dunning, or collection actions. Resolution will likely involve subrogation of claims, settlement negotiations, and may involve legal action over several years.

Nonetheless, certain revenue recognition criteria and billing and collection practices are applicable. The Controller and Treasurer will work with the Risk Manager to ensure proper administration of risk management claims, consistent with GAAP, municipal policies and procedures and best practices.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Accounts Receivable Not Recorded in General Ledger.**

- a. **Finding.** Some accounts receivable were not recorded in the Municipality's general ledger. Specifically, we found the following accounts receivable that were not recorded on the general ledger:

- 1) Risk Management Division - over \$1.0 million
- 2) Animal Care and Control Services - nearly \$341,000
- 3) Community Health Services - over \$69,000

According to AMC 6.60.010:

“The controller, under the direction of the chief fiscal officer, shall maintain the journal and ledger accounts for all departments and offices of the municipality. Such accounts shall reflect the detailed and summarized financial transactions of the municipality.”

Since these accounts receivable were not recorded in the general ledger, they were not reported in the Municipality’s annual financial report. One reason these accounts receivable have not been reported in the Municipality’s general ledger is because they are maintained on a variety of different stand-alone systems independent of the Municipality’s PSARS.

- b. **Recommendation.** The Chief Fiscal Officer should require that all accounts receivable are maintained according to AMC 6.60.010, and are included in the Municipality’s financial reports.
  
- c. **Management Comments.** Management stated, “**Management concurs with the report’s finding and recommendation regarding recording of all accounts receivable in the general ledger.**”

“To ensure fiscal accountability and maximize our collection efforts, management will ensure that all receivables are appropriately recognized in the general ledger. Management recommends any accounts receivable activity which cannot be accommodated in PSARS be maintained on a stand-alone system which is interfaced with the general ledger in a timely and periodic manner.

“Per the new accounts receivable P&P the PeopleSoft AR system is the default platform for departments to use in billing accounts receivable unless prior written authorization is obtained from the Chief Fiscal Officer.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Accounts Receivable Function Decentralized.**

- a. **Finding.** Over the years the accounts receivable function has been dispersed among various Municipal offices. As a result, there is little centralized coordination of accounts receivable. We found that accounts receivable were maintained and managed by the Municipal Wide Financial Processing Section, Animal Care and Control Services, Community Health Services, Risk Management, and Fire Department ambulance billings. According to the AMC, the Treasurer is responsible for the Municipality's accounts receivable function. Specifically, AMC 6.70.010 states:

“The treasurer, under the direction of the chief fiscal officer, shall receive, collect and be the custodian for the municipality of all money due or accruing to the municipality, and he may attach or distrain for the such money, proceeding in the manner required by law.”

- b. **Recommendation.** The Chief Fiscal Officer should require that the Treasurer assume the responsibility for billing and collecting all revenues of the Municipality as required by AMC 6.70.010.
- c. **Management Comments.** Management stated, “**Management agrees that issues surrounding decentralized billing and collecting activities need to be carefully analyzed.**”

“The CFO will determine on a case-by-case basis whether to allow particular departments can participate in decentralized billing and collecting. Decentralization must support efficient and effective collection practices.

“Whether individual departments billing and collection efforts are centralized or decentralized coordination of accounts receivable objectives, efforts, results, and feedback (both internal and external) will remain centralized within the Finance Department under the direction of the CFO.

“As part of an upcoming Finance Department reorganization a centralized billing and collection group will be established within the Treasury Division.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

#### 4. **Departments Had Not Aged Accounts Receivable.**

- a. **Finding.** Departments we reviewed had not aged accounts receivable. As a result, it may be difficult to adequately identify problem customers. We found that departments having their own accounts receivable systems had not aged their accounts until this audit. We also found that Community Health Services was criticized in a 2001 Site Review by the Federal government for not having adequate collection procedures. Although a policy and procedure was developed in response to the Federal government’s concern, it did not correct the problem. The policy and procedure states that, “Accounts are maintained on the accounts receivable system, but are not aged or sent for further collection action based on failure to pay.”

In addition, although a PSARS query used to identify accounts receivable by department existed, it did not include accounts prior to January 2000, or invoices that may have been entered into the PSARS without a department identification number.

Since this query did not provide complete information, departments could not use it to help monitor their accounts receivable.

- b. **Recommendation.** The Chief Fiscal Officer should implement a policy and procedure to help ensure all departments develop and use aging reports to adequately track accounts receivable.
  
- c. **Management Comments.** Management stated, “**Management concurs that some departments have not aged their accounts receivable.**”

“Management concurs that aging of accounts receivable is a significant tool for identifying problem customers and that some accounts receivable have not utilized aging reports.”

“By CFO directive all departments having accounts received, whether resident on the Peoplesoft platform or not, will be required in the future to provide monthly aging reports to the Treasurer and Controller. Once received by the Finance Department these aging reports will be analyzed and compiled for financial reporting and performance measurement purposes.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

## 5. **Collection Follow-up Needs Improvement.**

- a. **Finding.** Delinquent accounts receivable were not being adequately worked to help determine why they have not been paid or sent to collections. Part of the inability to provide adequate follow-up may be related to the decentralized nature of the accounts receivable process. Without adequate follow-up, receivables that are not valid distort the true value of the receivable balance.

Based on a survey of the Commercial Collection Agency Section of the Commercial Law League of America, the longer an account is outstanding, the less the probability of collection. For example, after three months, the probability of collecting on a delinquent account drops to about 72 percent. After six months, almost 44 percent of delinquent accounts will never be collected, and after one year the probability of collecting a delinquent account drops to about 29 percent. According to data provided by the Municipality's collection service, the Municipality has submitted nearly \$13.0 million for collection since 1986. Of this amount, only about \$1.6 million has been collected, or about 13 percent<sup>2</sup>. In comparison, the Anchorage Parking Authority stated that the collection rate by the same collection agency for their accounts receivable is about 42 percent. The Anchorage Parking Authority sends about 10-12 percent of their accounts receivable to the collection agency (accounts over 120 days old). According to the Anchorage Parking Authority, they are experiencing around a 90 percent collection rate.

We telephoned 24 customers, from our judgmental sample, regarding their delinquent accounts<sup>3</sup>. Our discussions with these customers revealed a variety of problems as follows:

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<sup>2</sup> This amount does not include all accounts receivable for the Municipality. For example, it does not include accounts receivable sent to AFS from Animal Care and Control Services. According to AFS data, about 25 percent of Animal Care and Control Services monies are recovered.

<sup>3</sup> To obtain customer phone numbers, we searched the PeopleSoft customer database. Although the database provided a space for a phone number, no phone numbers were found for any of the customers in our sample. Therefore, we had to use other means to obtain the necessary phone numbers.

- 1) On August 19, 2002, the Municipality sent the Alaska Department of Transportation a \$9,645 invoice for police traffic control services. As of April 2003, Municipal records indicated that \$1,200 was still owed. However, we discovered that this \$1,200 should have been written-off because it was a duplicate charge.
- 2) On July 27, 2001, the Municipality sent the Anchorage School District a \$12,400 invoice for investment services. As of April 2003 Municipality records indicated the \$12,400 was still owed. However, the School District stated this invoice had been paid. After further inquiry, we discovered the Municipality had received this payment, but the account was not properly credited.
- 3) On September 18, 2002, the Municipality issued a \$6,500 invoice for zoning violations occurring in May and June of 2002. These violations involved the commercial sale of firewood. However, the appellant disputed the charges and refused to pay the bill. The appellant felt the commercial sale of firewood was permitted on the property under previously granted "grandfather rights." As of April 2003, the issue had not been resolved and the bill had not been paid.
- 4) On February 2, 2001, the Municipality sent a \$23,567 invoice for the demolition of a building and asbestos removal. The customer disputed the charges. Although the Municipality has placed a lien on the property, as of April 2003, the receivable had not been written-off.
- 5) Several invoices regarding overtime charges related to drug enforcement have not been fully paid by the Drug Enforcement Agency (DEA). One \$9,210 invoice, dated November 2000, had not been fully paid. We contacted the DEA who stated that only \$2,864 could be paid for this invoice

since the remaining charges exceeded the allowable costs. Another \$20,985 invoice regarding drug enforcement overtime charges, dated August 2002, also had not been fully paid. We contacted the DEA who stated that this invoice exceeded the allowable costs. Although \$10,372 was paid, DEA stated the remaining balance of \$10,613 would not be paid because it exceeded the allowable cost.

- 6) Payment for one invoice was delayed because the bill was not sent to the customer in a timely manner. On September 18, 2002, the Municipality sent a customer an \$81,429 invoice for improvements made to the Kincaid Chalet. This invoice was to be paid using grant money directed through the Special Olympics Committee. However, since the invoice was delivered late, it could not be paid because a final audit of the grant had already been completed in December 2001. Furthermore, over \$174,000 in additional charges were incurred, but never billed because of a lack of grant funds. As a result, the Municipality may have to absorb over \$255,000 for these improvements.

- b. **Recommendation.** The Chief Fiscal Officer should develop and implement a process to systematically work accounts receivable. Invalid accounts receivable should be deleted from the database to help focus collection efforts on valid accounts. In addition, a policy and procedure should be implemented requiring uncollected accounts receivable, over a certain age, be sent to a collection agency.
- c. **Management Comments.** Management stated, “**Management agrees that collection follow-up needs meaningful improvement with respect to accounts receivable.**

“Management recognizes improvements are needed in the areas of researching older/problem accounts and flagging a backlog of accounts which are candidates for

referral to our outside collection agency. In addition, Management intends to formally evaluate various options with respect to outside collection agency work. The current contract with Alaska Financial Services/OSI is up for renewal.

“Regarding the six judgmental samples cited in the audit report, Management has researched each of the accounts mentioned and will take appropriate action to resolve all six issues in 2003.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **No Methodology for Computing Uncollectible Accounts.**

- a. **Finding.** During the course of our audit work, Controller Division staff were unable to provide the methodology used to calculate “Allowance for Uncollectibles” in the Comprehensive Annual Financial Report. The 2002 Comprehensive Annual Financial Report identified about \$15.2 million as an “Allowance for Uncollectibles.” Approximately \$11.0 million of this allowance is associated with the Anchorage Metropolitan Police Service Area. During the course of our audit work, we asked how this \$11.0 million was calculated. Controller Division staff were unable to provide a sufficient methodology explaining how this figure was calculated.
- b. **Recommendation.** The Controller should document the methodology for calculating the “Allowance for Uncollectibles.”
- c. **Management Comments.** Management stated, “**Management concurs with the report recommendation regarding documenting the methodology for calculating the allowance for uncollectibles.**”

“The Controller Division will prepare written documentation of the methodologies to be used in calculating allowances for uncollectibles to ensure all appropriate financial statement preparers and reviewers are aware of the criteria used in the calculation and have the ability to reconstruct the analysis.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **Bills for Collection Not Processed Timely.**

- a. **Finding.** Significant delays in generating invoices in the PSARS have contributed to the untimely collection of past due accounts. Our review of 50 randomly selected Bills for Collection (BFC) received by the Finance Department between May 13, 2002, and June 21, 2002, revealed that it took an average of 42 days to generate an invoice. After a service is performed, the responsible department generates a BFC. The BFC is submitted to the Finance Department for input into the PSARS. Each Thursday invoices are generated from the BFC data and then mailed. The following table identifies the major steps in the billing process and the average time it took to complete each step.

<b>Average Business Days for Steps in the Billing Process for May 13 through June 21, 2002</b>		
<b><u>Step</u></b>	<b><u>Description</u></b>	<b><u>Average Time</u></b>
1	Date of Service to Bill for Collection	21 business days
2	Bill for Collection to Date Received by Finance	7 business days
3	Date Received by Finance to Date Entered by Finance	11 business days
4	Date Entered by Finance to Invoice Date	3 business days
<b>Total of steps 1-4:</b>		42 business days
Source: Auditor analysis		

Currently, no policy and procedure exists explaining how long each step in the billing process should take. According to Treasury Division staff, the accounts receivable policy and procedure (Customer Setup, Billing and Managing PeopleSoft Accounts Receivable), which has been in draft form for over a year and finalized during the audit, includes appropriate time frames. Internal control standards require transactions to be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

- b. **Recommendation.** The Municipal Treasurer should ensure that departments submit BFC's in a timely manner and ensure invoices are generated in the minimum amount of time necessary. In addition, time frames for billing processes should be established and implemented to optimize the chances of collecting accounts due.
  
- c. **Management Comments.** Management stated, "**Management concurs with the finding that additional improvement is needed in the timeliness of bills for collections.**"

"The central billing function for the Peoplesoft Accounts Receivable module is slated to move from the Controller Division to the Treasury Division as part of a Finance Department reorganization. The Anchorage Fire Department (AFD) is the only department, other than Finance, authorized to enter billing information directly into the Peoplesoft system. AFD's lag time for entering billing data can be 21 days or more; this causes the overall average time for entering general government bills into the PeopleSoft system to exceed the standard time frames cited in the accounts receivable P&P. Treasury intends to work with AFD to shorten the timeframes associated with generating AFD invoices."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

**8. Performance Measures Inadequate for Accounts Receivable.**

**a. Finding.** The Investing for Results program, for the Finance Department, did not have adequate performance measures regarding accounts receivable. Consequently, the Department is unable to adequately communicate to the taxpaying public how well its collection program is meeting its objectives. A collection program should have measurable objectives and methods of gathering reliable data about its performance relative to those objectives. Performance measures for accounts receivable should be particularly amenable to goal-setting since quantifiable measures can be established. For example, a measure of success could be the percentage of accounts that are collected within 30, 60, 90, 120, or 365 days.

**b. Recommendation.** The Chief Fiscal Officer should identify appropriate performance measures to include in the Investing for Results program. In addition, the Chief Fiscal Officer should establish data-gathering processes required to monitor performance.

**c. Management Comments.** Management stated, “**Management concurs that more precise performance measures will be beneficial for better managing accounts receivable.**”

“Treasury will implement precise internal standards for overall performance of the City’s receivables.”

**d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on July 1, 2003, and July 17, 2003.

Audit Staff:  
Michael B. Chadwick