

# INTERNAL AUDIT REPORT

2023-02

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Accounts Receivable

Finance Department

May 23, 2023

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MUNICIPALITY OF ANCHORAGE  
MAYOR DAVE BRONSON

OFFICE OF INTERNAL AUDIT

May 23, 2023

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2023-02, Accounts Receivable, Finance Department**. A summary of the report is presented below.

In accordance with the 2022 Audit Plan, we have completed an audit of Accounts Receivable at the Finance Department. 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 50 randomly selected invoices from an SAP accounts receivable aging report, and 36 randomly selected credit memos processed in 2021 and 2022. In addition, we analyzed returned mail found in the Treasury Division and judgmentally selected and reviewed delinquent personal property tax accounts. Further, we reviewed the adequacy of internal controls for the stand-alone accounts receivable systems. Finally, we reviewed the adequacy of stand-alone systems policies and procedures and followed up a previous audit finding regarding the Anchorage Fire Department's false alarm billings.

We found that the management of Municipal accounts receivable can be improved. Specifically, some Municipal agencies using accounts receivable stand-alone billing systems did not have exceptions approved by the Chief Fiscal Officer for internal billing and collection policies and procedures that deviated from Policy & Procedure 24-21, *Customer Setup, Billing and Managing PeopleSoft Accounts Receivable*. Moreover, some accounts receivable found in some stand-alone billing systems could be better managed and some stand-alone billing systems were not approved by the Chief Fiscal Officer. In addition, some accounts receivable from stand-alone billing systems were not recorded in the Municipality's general ledger. Furthermore, accounts receivable stand-alone system aging reports for the Anchorage Health Department's Community Health Nursing Program and Food Safety and Sanitation Program contained unexplained credit entries that may have distorted the true value of outstanding accounts receivable, and departments using the SAP billing system did not always process and submit billing paperwork timely to Treasury. We also found that Treasury did not always properly process invoices and the Anchorage Fire Department did not enter their false alarm bills into SAP according to their exception for monthly billing. Finally, Policy & Procedure 24-21 needs to be revised since it was last updated in April 2003, prior to the implementation of SAP, and Treasury staff did not always pursue collection contact activity for delinquent personal property taxes at prescribed follow-up intervals.

There were ten findings in connection with this audit. Management was responsive to the findings and recommendations in this report.

Michael Chadwick, CIA, CICA

Director, Internal Audit





**MUNICIPALITY OF ANCHORAGE**  
**MAYOR DAVE BRONSON**

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**OFFICE OF INTERNAL AUDIT**

May 23, 2023

**Internal Audit Report 2023-02**  
**Accounts Receivable**  
**Finance Department**

**Introduction.** According to Anchorage Municipal Code (AMC), Title 6, the Chief Fiscal Officer (CFO) is responsible for billing, collecting, and writing-off of the Municipality of Anchorage's (Municipality) accounts receivable. Policy and Procedure 24-21, *Customer Setup, Billing and Managing PeopleSoft Accounts Receivable*, provides guidance regarding Municipality's miscellaneous account receivable. The Municipality's financial system of record is SAP. Currently, the Treasury Division (Treasury) is responsible for SAP billing and revenue posting in the SAP Accounts Receivable (AR) module, real and personal property tax billings, and delinquent collections for Delinquent Criminal/Civil Fines and Fees (DCF). Seven Municipal agencies regularly utilize the SAP AR module for all, or part, of their billing for various services. These agencies include Anchorage Police Department (APD), Anchorage Fire Department (AFD), Community Development, Finance Department, Office of Internal Audit, Parks and Recreation, and Public Transportation Department. In addition, we also found stand-alone accounts receivable systems maintained by the Anchorage Animal Care and Control Center; Anchorage Health Department's (AHD) Food Safety and Sanitation (FS&S) Program and Community Health Nursing Program; the Anchorage Public Library (Library); and Risk Management. During the audit, we identified the following types of accounts receivable and various billing systems:

- ***SAP Accounts Receivable*** - As of October 21, 2022, there was about \$445,321 of miscellaneous general government accounts receivable in the SAP AR module.

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**Miscellaneous SAP Accounts Receivable**  
as of  
**October 21, 2022**

<u>Aging</u>	<u>Amount</u>	<u>Number of Accounts</u>	<u>Percent of Accounts</u>
Current	\$155,215	286	50%
31-60 days	103,697	146	25%
61-90 days	11,408	44	8%
91-120 days	44,269	45	8%
121-365 days	4,407	21	4%
Over 365 days	<u>126,325</u>	<u>31</u>	<u>5%</u>
<b>Totals:</b>	<u>\$445,321</u>	<u>573</u>	<u>100%</u>

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Source: Treasury staff and Auditor's analysis.

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- ***Real and Personal Property Tax Accounts Receivable*** - As of October 18, 2022, there was about \$63.7 million in property taxes accounts receivable ranging from year 2016 to 2022. According to Treasury Division staff, for real property taxes, if no payment is received during the year, foreclosure action will be taken after January 31st of the following year. For personal property taxes, delinquent accounts are referred to the Treasury Division's in-house collectors for further collection action before they are referred to the collection agency.



**Real and Personal Property Taxes Receivable**  
as of  
**October 18, 2022**

<u>Year</u>	<u>Real Property</u>	<u>Personal Property</u>
2016	\$ 12,995	\$ 0
2017	6,757	1,727
2018	170,431	15,905
2019	543,207	14,788
2020	1,224,001	132,620
2021	2,575,835	317,108
2022	<u>13,078,511</u>	<u>45,579,073<sup>1</sup></u>
<b>Totals:</b>	<u><u>\$17,611,737</u></u>	<u><u>\$46,061,221</u></u>

<sup>1</sup>Personal Property taxes were not due until November 30, 2022. This due date was later than previous years, in part, due to implementation issues with the update to the Municipality's valuation and tax system.

Source: Treasury staff and Auditor's analysis.

- ***Anchorage Animal Care and Control Center Accounts Receivable*** - As of October 19, 2022, there was \$44,100 in accounts receivable maintained on a stand-alone system, Chameleon, by the Animal Care and Control Services Center's contractor.

**Animal Care and Control Center Accounts Receivable**  
as of  
**October 19, 2022**

<u>Aging</u>	<u>Amount</u>	<u>Number of Invoices</u>	<u>Percent of Invoices</u>
Current	\$ 6,900	31	16%
16-105 Days	29,325	123	62%
106-135 Days	5,975	31	16%
136-365 Days	<u>1,900</u>	<u>12</u>	<u>6%</u>
<b>Totals:</b>	<u><u>\$44,100</u></u>	<u><u>197</u></u>	<u><u>100%</u></u>

Source: Animal Care and Control Center staff and Auditor's analysis.

- ***Anchorage Health Department Accounts Receivable*** - Accounts receivable is maintained on two different stand-alone systems: Envision for the FS&S Program and Insight for the Community Health Nursing Section.

*Food Safety and Sanitation Program Accounts Receivable* - As of September 28, 2022, there was \$80,216 in the FS&S Program accounts receivable system.

<b>AHD Food Safety &amp; Sanitation Program Accounts Receivable</b>			
<b>as of</b>			
<b>September 28, 2022</b>			
<b><u>Aging</u></b>	<b><u>Amount</u></b>	<b><u>Number of Invoices</u></b>	<b><u>Percent of Invoices</u></b>
Current	\$ 415	6	<1%
31-150 Days	4,117	32	4%
151-365 Days	13,081	93	11%
Over 1 Year	(4,293)	116	13%
Over 2 Years	10,252	45	5%
Over 3 Years	2,535	23	3%
Over 4 Years	720	26	3%
Over 5 Years	4,025	18	2%
Over 6 Years	587	29	3%
Over 7 Years	<u>48,777</u>	<u>484</u>	<u>56%</u>
<b>Totals:</b>	<b><u>\$80,216</u></b>	<b><u>872</u></b>	<b><u>100%</u></b>
Source: Food Safety & Sanitation Program staff and Auditor's analysis.			

*Community Health Nursing Program Accounts Receivable* – As of October 21, 2022, there was about \$367,760 in Community Health Nursing Program accounts receivable system which included both open claims with insurances companies (including Medicaid, Medicare, Tricare, and private insurance companies) and clients' copay.



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**AHD Community Health Nursing Program Accounts Receivable**  
as of  
**October 21, 2022**  
Percent of

<u>Aging</u>	<u>Amount</u>	<u>Total</u>
Current	\$ 4,887	1%
30-59 Days	6,185	2%
60-89 Days	8,681	2%
90-119 Days	12,928	4%
120-179 Days	23,346	6%
180-365 Days	65,960	18%
Over 1 Year	<u>245,773</u>	<u>67%</u>
<b>Totals:</b>	<b><u>\$367,760</u></b>	<b><u>100%</u></b>

Source: Anchorage Health Department Application Database Programmer staff and Auditor's analysis.

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- ***Risk Management Accounts Receivable*** - As of September 27, 2022, there was about \$670,643 in accounts receivable maintained on a stand-alone system, ClaimPilot. According to Risk Management staff, some of the accounts are on payment plans.

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**Risk Management Department Accounts Receivable**  
as of  
**September 27, 2022**

<u>Year</u>	<u>Amount</u>	<u>Number of Claims</u>	<u>Percent of Claims</u>
2015	6,739	1	<1%
2016	23,300	1	<1%
2017	0	0	0%
2018	5,508	2	2%
2019	52,080	8	6%
2020	146,434	15	12%
2021	186,513	38	30%
2022	<u>\$ 250,069</u>	<u>63</u>	<u>49%</u>
<b>Totals:</b>	<b><u>\$ 670,643</u></b>	<b><u>128</u></b>	<b><u>100%</u></b>

Source: Risk Management staff and Auditor's analysis.

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- **Anchorage Public Library** - As of October 4, 2022, there was about \$917,955 in accounts receivable maintained on a stand-alone system, Sirsi.

<b>Anchorage Public Library Accounts Receivable</b>			
<b>as of</b>			
<b>October 4, 2022</b>			
<u><b>Aging</b></u>	<u><b>Amount</b></u>	<u><b>Number of</b></u>	<u><b>Percent of</b></u>
		<u><b>Users</b></u>	<u><b>Users</b></u>
Current	\$ 40,767	468	3%
31-150 Days	94,096	1,092	8%
151-365 Days	35,834	463	3%
Over 1 Year	29,961	426	3%
Over 2 Years	107,822	1,404	10%
Over 3 Years	282,509	4,253	30%
Over 4 Years	322,953	5,709	40%
Over 5 Years	2,433	156	1%
Over 6 Years	959	88	1%
Over 7 Years	621	149	1%
<b>Totals:</b>	<u><b>\$917,955</b></u>	<u><b>14,208</b></u>	<u><b>100%</b></u>
<u>Source: Anchorage Public Library staff and Auditor's analysis.</u>			

- **Anchorage Fire Department Area Wide Emergency Medical Services, Fire Inspection and Community-Right-To-Know** - As of October 13, 2022, there was about \$5.8 million in emergency medical services (EMS), fire inspections, and Community-Right-To-Know (CRTK) Program accounts receivable. The Anchorage Fire Department provides EMS to all areas of the Municipality, and the AFD Fire Prevention Division provides fire inspections and CRTK inspections. Collection for these AFD accounts receivable is contracted to a third-party biller, Wittman Enterprises, LLC.



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**Anchorage Fire Department Accounts Receivable at Wittman**  
**as of**  
**October 13, 2022**

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<u><b>Aging</b></u>	<u><b>EMS</b></u>	<u><b>Fire Inspection</b></u>	<u><b>CRTK</b></u>
Current	\$ 2,412,803	\$10,036	\$ 0
31-60 Days	1,159,757	15,370	85
61-90 Days	576,857	8,782	1,070
91-120 Days	350,341	499	320
121-150 Days	253,647	1,386	0
151-180 Days	127,236	0	0
Over 180 Days	<u>888,332</u>	<u>1,152</u>	<u>110</u>
<b>Totals:</b>	<u><b>\$ 5,768,973</b></u>	<u><b>\$37,225</b></u>	<u><b>\$1,585</b></u>

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Source: Wittman Enterprises, LLC.

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- ***Delinquent Criminal/Civil Fines and Fees*** - As of October 7, 2022, the DCF database contained about \$3.8 million of in-house accounts receivable. Treasury maintains the Municipality's DCF database. These fees and fines are ordered by the Alaska Court System and the Municipal Administrative Hearing Officer and include items such as criminal fines, traffic citations and minor offense fines, cost of imprisonment fines, indigent defense fees, and Municipal code enforcement fines. Most of the fees and fines have been turned over to the Municipality by the Court System. Treasury Division DCF staff try to match these accounts with Permanent Fund Dividends (PFD) to facilitate payment and perform bank sweeps. However, sufficient PFD funds may not be available to pay the debt since other organizations may also have claim on this money. Delinquent Criminal/Civil Fines and Fees are sent to collections if the account is non-responsive to a final demand letter and the individual is older than 18 years. Accounts are adjusted to \$0 and collection action ends if: 1) the account is older than ten years; 2) the account has no activity for three consecutive years; 3) the account has not been matched to the PFD for three consecutive years; 4) the debtor is deceased; 5) the debtor is in bankruptcy; or 6) the debtor is incarcerated.

The Municipality is dependent upon the collection of taxes and other revenue to provide services to its citizens. The Municipality is under pressure to maximize revenue and provide the highest level of service possible within budget constraints. 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.
- Write-off of accounts that are clearly not collectible.

The Municipality's 2021 Annual Comprehensive Financial Report (ACFR) shows the Municipality with over \$43.5 million accounts receivable balance and over \$8.2 million in allowance for uncollectible accounts. 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 50



randomly selected invoices from an SAP accounts receivable aging report dated October 21, 2022, and 36 randomly selected credit memos processed in 2021 and 2022. In addition, we analyzed returned mail found in the Treasury Division, and judgmentally selected and reviewed emails to departments regarding returned email. Moreover, we judgmentally selected and reviewed delinquent personal property tax accounts, based on age and dollar value. Further, we reviewed the adequacy of internal controls for the stand-alone accounts receivable systems used by the various municipal agencies. Finally, we reviewed the adequacy of stand-alone systems policies and procedures and followed up on a previous audit findings regarding AFD's false alarm billings.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**Overall Evaluation.** The management of Municipal accounts receivable can be improved. Specifically, some Municipal agencies using accounts receivable stand-alone billing systems did not have exceptions approved by the CFO for internal billing and collection P&Ps that deviated from P&P 24-21. Moreover, some accounts receivable found in some stand-alone billing systems could be better managed and some stand-alone billing systems used by Municipal agencies were not approved by the CFO as required by P&P 24-21. In addition, some accounts receivable from stand-alone billing systems were not recorded in the Municipality's general ledger. Furthermore, accounts receivable stand-alone system aging reports for AHD's Community Health Nursing Program and FS&S Program contained unexplained credit entries that may have distorted the true value of outstanding accounts receivable, and departments using the SAP AR billing system did not always process and submit billing paperwork timely to Treasury as required by P&P 24-21. We also found that Treasury did not always process invoices in accordance with the requirements of P&P 24-21 and AFD did not enter their false alarm bills into the SAP AR system in compliance with their CFO exception for monthly billing. Finally, P&P 24-21 needs to be revised since it was last updated in April 2003, prior to the implementation of SAP, and Treasury staff

did not always pursue collection contact activity for delinquent personal property taxes at prescribed follow-up intervals.

## FINDINGS AND RECOMMENDATIONS

### 1. Stand-Alone Billing Systems' Policies and Procedures Not Always Approved.

- a. **Finding.** Some Municipal agencies using accounts receivable stand-alone billing systems did not have exceptions approved by the CFO for internal billing and collection P&Ps that deviated from P&P 24-21. Policy and Procedure 24-21 states that "Where individual or department circumstances require it, managers may develop supplemental instructions in conjunction with the Finance Department to provide a more specific degree of control. A copy of the supplemental instructions must be sent to the Finance Department for review prior to their implementation." In addition, P&P 24-21 states that "No exceptions...are authorized unless written approval has been obtained in advance from the Chief Fiscal Officer and a copy is on file in Treasury." For example, P&P 24-21 states that "...delinquent accounts are recommended to Treasury for write-off no sooner than 90 days and no later than 120 days past due." However, we found the following P&Ps for stand-alone billing systems that did not align with write off procedures and did not have exceptions approved by the CFO:

- **Anchorage Public Library** - Anchorage Public Library Circulation Manual: Policies and Procedures states that "Unpaid bills of \$1000.00 [sic] or more that include Lost or Damage charges will be sent to the Municipality's delinquent collection office in Treasury." Policy and Procedure 24-21 does not have a dollar threshold, but instead has a time requirement.
- **Animal Care and Control Center** - Anchorage Animal Care and Control Center Operating Policy/Procedure E-04, *Notice of Violation-Collections*, states that "...NOVs with a status of LATE FEE for more than 60 days will be processed for



the Municipality of Anchorage (MOA) to collect fines and fees owed.” Policy and Procedure 24-21 states that accounts can only be written-off after 90 days past due.

- ***Anchorage Health Department FS&S Program*** - Food Safety and Sanitation Policy and Procedure 2560-1, *Billing and Collection Policies and Procedures for FS&S Permits, Fee’s [sic] & Fines*, states that “Accounts with outstanding late fee’s [sic] or citations are turned into collections after 30 days.” However, P&P 2560-1 states that “The FS&S Supervisor reviews all clients that have unpaid late fee’s [sic] or citations in the fall and reviews them with the Public Health Division Manager. Any client write-offs will follow MOA policy and procedure.” Policy and Procedure 24-21 states that accounts can only be written-off after 90 days past due.
- b. **Recommendation.** The Chief Fiscal Officer should ensure that Directors of Municipal entities with accounts receivable stand-alone systems follow P&P 24-21 or that internal written billing and collection P&P’s that deviate from P&P 24-21 are approved by the CFO.
- c. **Management Comments.** Management (Chief Fiscal Officer) stated, “We concur with the finding. The CFO will reach out to Directors of Anchorage Public Library, Animal Care and Control Center and Anchorage Health Department FS&S Program to have them create exception requests to be reviewed and approved by the CFO when not following P&P 24-21. We expect this to be completed by June 30, 2023.”

Management (Anchorage Public Library) stated, “The Library concurs with the audit finding and recommendation. To assist the Chief Fiscal Officer with implementing the audit recommendation, we plan to review our internal P&Ps and revise them, if necessary, to align with P&P 24-21. This review will be completed by the end of September 2023.”

Management (Anchorage Health Department) stated, “**Animal Care & Control:** Management concurs. Management has updated Anchorage Animal Care and Control Policy and Procedure E-04 to reflect that NOV’s can only be sent to collections once they are 90 days past due.”

**Food Safety & Sanitation:** The Anchorage Health Department (AHD) concurs with the Internal Audit findings and recommendations. The AHD Environmental Health Section is in the process of revising our internal P&P 2560-1, *Billing and Collection Policies and Procedures for FS&S Permits, Fees and Fines*, to correspond with the Municipality of Anchorage’s P&P 24-21, *Customer Setup, Billing, and Managing PeopleSoft Accounts Receivable*. We plan to have this completed by the end of the second quarter.”

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

2. **Accounts Receivable in Stand-Alone Billing Systems Not Effectively Managed.**

- a. **Finding.** Some accounts receivable found in some stand-alone billing systems could be better managed. Specifically, we found the following:
- ***Animal Care and Control Center*** – There were 12 violations in 2022 totaling \$1,900 that were not referred to the collection agency. According to Animal Care and Control Center staff, these accounts were not sent to the collection agency because they were overlooked. A similar finding was noted in Internal Audit Report 2019-05.
  - ***Anchorage Health Department*** – Anchorage Health Department’s FS&S Program did not properly manage and/or actively pursue the collection of delinquent accounts receivable. Specifically, we found delinquent accounts from 2006 to 2022



on the FS&S Program's accounts receivable aging report that had not been written-off or sent to collections. As a result, 834 of 872 (96%) of FS&S Program's accounts totaling \$76,514 were 151 days to over 7 years delinquent. We did not find any evidence that FS&S Program staff tried to collect these accounts receivable or write-off delinquent accounts receivable and send them to the collection agency. Policy and Procedure 24-21 states that accounts can only be written-off after 90 days past due. A similar finding was noted in Internal Audit Report 2019-05.

In addition, we found that AHD's Community Health Nursing Program did not write-off delinquent accounts after 365 days. In April 2019 AHD sent a memo to the CFO requesting that accounts over 365 days old could be written-off as uncollectible without forwarding them to an outside agency for collection. The CFO approved this exception. According to staff, they did not want to send these delinquent accounts receivable to the collection agency because "These services are provided to vulnerable patients that may not seek our assistance if barriers such as a threat of collection agency activities were initiated." As of October 2022, the aged accounts receivable report showed a balance of \$367,760, and \$245,773 (67%) of the balance was over 365 days old.

- ***Anchorage Public Library*** – The Anchorage Public Library did not always manage or pursue the collections of delinquent accounts receivable. The Anchorage Public Library's procedure is to send delinquent accounts receivable for lost and damaged charges to the collection agency if the accounts surpass \$1,000. Other accounts receivable, such as late fees and fines, stay in-house and continue to remain on the Library's stand-alone system for years as shown on the table on page 6 of this report. According to Library management, these accounts are deleted from their stand-alone billing system after seven years without the CFO's approval. As of October 2022, the Library had an outstanding accounts receivable balance of \$917,955, and \$783,092 (85%) of this balance were 151 days to over 7 years delinquent. A similar finding was noted in Internal Audit Report 2019-05. In



addition, we found that Library staff had not performed any collection actions since September 2020.

Finally, Library staff told us that in February 2021 they deleted miscellaneous accounts receivable in Sirsi but had not submitted these accounts to Treasury for write-off or received approval from the CFO. Although we asked Library staff several times for documentation showing how much was deleted, insufficient documentation was provided. As a result, the exact amount of this unauthorized write-off of accounts receivable could not be determined.

- b. **Recommendations.** The Chief Fiscal Officer should enforce the requirements of P&P 24-21 and should meet with departments having stand-alone billing systems to provide further advice and guidance regarding procedures.
- c. **Management Comments.** Management (Chief Fiscal Officer) stated, “We concur with this finding and will take the following steps. The CFO will meet with each Department Director that has a stand-alone AR billing system to offer guidance on policy and procedures as they apply to each stand-alone billing system. We expect to have this process in place 90-120 days of issuance of audit report.”

Management (Anchorage Health Department – FS&S Program) stated, “The Anchorage Health Department concurs with these Internal Audit findings and recommendations. . . . We will also be training Customer Service staff how to manage these procedures. We will endeavor to have this training completed by December 2023.”

Management (Anchorage Health Department – Community Health Nursing Program) stated, “Management concurs. A biller/coder has been hired and is using a memo from the CFO dated 2019 to begin write offs of accounts older than 365 days.”

Management (Anchorage Public Library) stated, “The Library concurs with the audit finding and recommendation. To assist the Chief Fiscal Officer with implementing the audit recommendation, we plan to meet with the Municipal Treasurer to determine how best to write-off our outstanding accounts receivable. After getting the appropriate approval(s) to write-off the identified accounts receivable, we will then direct the Alaska Library Catalog to remove them from the integrated library system. We plan to complete this write-off by the end of September 2023.”

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

3. **Stand-Alone Billing Systems Not Approved.**

- a. **Finding.** Some stand-alone billing systems used by Municipal agencies were not approved by the CFO as required by P&P 24-21. Specifically, we found no evidence of documented approval by the CFO for the Library’s Sirsi system and for Risk Management’s ClaimPilot database. Policy and Procedure 24-21 states that “No other billing system shall be used by a Municipal department for billing miscellaneous accounts receivable unless prior written authorization is obtained from the Chief Fiscal Officer and a copy of that authorization has been provided to the Controller and Treasurer.” A similar finding was noted in Internal Audit Report 2019-05.
- b. **Recommendation.** The Chief Fiscal Officer should ensure departments with stand-alone billing systems comply with the approval requirements of P&P 24-21.
- c. **Management Comments.** Management (Chief Fiscal Officer) stated, “We concur with this finding. The CFO will reach out to the Anchorage Public Library and Risk Management to have them create an exception request to be reviewed and signed by the CFO with a copy on file in Treasury. We expect this to be completed by June 30, 2023.”



Management (Anchorage Public Library) stated, “The Library concurs with the audit finding and recommendation. We searched our files and found a memorandum from the Library to the Chief Fiscal Officer dated April 5, 2019, requesting approval of our stand-alone system, Sirsi. However, the memorandum that we found was not signed by the Director and has nothing on it showing that it was approved by the Chief Fiscal Officer. Consequently, we plan to review the applicability of the memorandum in relation to our current operations, revise it if necessary, and submit it to the Chief Fiscal Officer for approval. Due to our Budget coordinator position only very recently being filled and still going through training, we plan to obtain the Chief Fiscal Officer’s approval by the end of June 2023.”

Management (Risk Management) stated, “Risk Management concurs with these findings as the approval from the CFO at the time the system was purchased could not be located. Risk Management sent a memo to the CFO dated 3/6/2023 requesting approval which was granted the same day.”

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

4. **Stand-Alone Billing Systems Accounts Receivable Not Recorded in General Ledger.**

- a. **Finding.** Some accounts receivable from stand-alone billing systems were not recorded in the Municipality’s general ledger. Specifically, we found the following accounts receivable that were not recorded in the general ledger:

- Anchorage Public Library – nearly \$918,000
- Anchorage Health Department FS&S Program – over \$80,000

Since these accounts receivables were not recorded in the general ledger, they were not reported in the Municipality’s yearly ACFR. Anchorage Municipal Code section



6.60.010 states that “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.” One reason these accounts receivable have not been reported in the Municipality’s general ledger is because they are maintained on different stand-alone systems independent of SAP. A similar finding was noted in Internal Audit Report 2019-05.

- b. **Recommendations.** The Chief Fiscal Officer should require that all accounts receivables are maintained as required by AMC section 6.60.010 and are included in the Municipality’s financial reports.
- c. **Management Comments.** Management (Chief Fiscal Officer) stated, “We concur with this finding. The CFO will meet with the Directors of the Anchorage Public Library and the Anchorage Health Department FS&S Program to develop a process so that an accounts receivable aging report is provided to the Controller Division at year-end for the financial reports. We expect to have this process in place 90-120 days of issuance of audit report.”

Management (Anchorage Public Library) stated, “The Library concurs with the audit finding and recommendation. To assist the Chief Fiscal Officer with implementing the audit recommendation, we plan to meet with a representative in the Controller’s office to determine how best to reflect our accounts receivable balance in the Municipality’s general ledger. Due to the lack of available staff in the Controller’s office, we hope to meet with a Controller representative sometime before the end of September 2023.”

Management (Anchorage Health Department – FS&S Program) stated, “The Anchorage Health Department concurs with these Internal Audit findings and recommendations. We plan to confer with the Controller’s office for advice about how

best to proceed, and best manage, these delinquent accounts receivable, so they can be reported on the general ledger.”

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

5. **Stand-Alone System Aging Reports Distorted.**

- a. **Finding.** Accounts receivable stand-alone system aging reports for AHD’s Community Health Nursing Program and FS&S Program contained unexplained credit entries that may have distorted the true value of outstanding accounts receivable. Specifically, the Community Health Nursing Program’s accounts receivable aging report totaled \$367,760 with credit and debit entries. However, we were not provided an expanded report and were unable to determine a balance without credit entries. Additionally, the FS&S Program’s accounts receivable aging report totaled \$80,216 with credit and debit entries, and \$125,653 without credit entries, a \$45,437 difference. In both cases, AHD staff could not explain what these credits were and why they were included in their accounts receivable reports.
- b. **Recommendation.** The Director of the Anchorage Health Department should ensure that accounts receivable stand-alone system aging reports do not include credit balances.
- c. **Management Comments.** Management stated, “Management concurs. Management, along with IT, MOA Treasury and MOA Financial Institution, have identified a reporting glitch between the 3 agencies which is creating what appears to be credits. The 3 agencies are working to find a solution to this internal glitch. Secondly, there are times when insurance agencies are billed an amount but reimburse AHD at a higher amount which appears as an overpayment from the patients thus creating an apparent credit. These instances are not a true credit. AHD and MOA Treasury are searching for



ways to identify these instances of higher reimbursements and ways to post these payments so the payments will not appear as credits.”

In addition, Management stated, “The Anchorage Health Department concurs with these Internal Audit findings and recommendations. . . .The Environmental Health Section is in the process of upgrading our project management software that will more appropriately reflect debits and produce reports.”

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

6. **Departments Did Not Always Process Invoices as Required by P&P 24-21.**

- a. **Finding.** Departments using the SAP AR billing system did not always process and submit billing paperwork timely to Treasury as required by P&P 24-21. Specifically, our review of 50 randomly selected invoices revealed that 36 (72%) had an average processing time of 15 business days, ranging from 6 to 65 business days after the department date of service. Policy and Procedure 24-21 states each business unit shall, “Ensure that . . . miscellaneous transactions billed to customers on account are accurately documented and recorded in its . . . system no later than 5 (five) business days after the transaction has occurred.” In addition, eight (16%) customer invoices did not meet the requirements of P&P 24-21 because they were generated for multiple transactions. P&P 24-21 requires one original invoice to be generated for each transaction on an account. A similar finding was noted in Internal Audit Report 2019-05.
- b. **Recommendation.** The Chief Fiscal Officer should ensure departments follow the invoice processing requirements found in P&P 24-21.

- c. **Management Comments.** Management stated, “We concur with this finding. The CFO has directed Treasury to monitor and communicate with departments to ensure invoices are generated per invoice processing requirements in accordance with P&P 24-21. We expect to complete this by June 30, 2023.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **Treasury Did Not Always Process Invoices as Required by P&P 24-21.**

- a. **Finding.** Treasury did not always process invoices in accordance with the requirements of P&P 24-21. Specifically, our review of 50 sampled invoices revealed that nineteen (38%) invoices were mailed 8 to 15 days after their entry into SAP from departments. Policy and Procedure 24-21 requires that original invoices should be “...mailed to the responsible customer no more than 7 days after the transaction has been recorded . . .”

In addition, Treasury did not timely process returned mail. Specifically, we discovered 67 pieces of returned mail under a Treasury staff desk containing customer invoices and statements with yellow return labels ranging from June through October 2022. After review, we found that 41 of 67 (61%) pieces of returned mail items had not been opened. According to P&P 24-21, each department head shall ensure “...returned mail are investigated within 5 business days . . .” A similar finding was noted in Internal Audit Report 2019-05.

- b. **Recommendation.** The Chief Fiscal Officer should ensure that Treasury staff and billing processes comply with the requirements of P&P 24-21.
- c. **Management Comments.** Management stated, “We concur with this finding. The CFO has directed Treasury to ensure that invoices are mailed no more than seven days after the transactions have been recorded in SAP. Treasury will work with departments to



provide correct addresses for returned mail. We expect to complete this by June 30, 2023.”

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

8. **Fire False Alarms Not Billed in Accordance with CFO Exception.**

- a. **Finding.** The Anchorage Fire Department did not enter their false alarm bills into the SAP AR system in compliance with their CFO exception for monthly billing. The Anchorage Fire Department Memorandum, *Exemption for P&P 24-21*, dated March 27, 2019, states that “...we request approval for monthly billing of false alarms in order to be more efficient and allow adequate time for incident reports to be completed. This will enable accurate timely and accurate billings for the customers we serve.” According to AFD staff, to comply with the CFO exception it is their policy to enter false alarms billing information into SAP between the 2<sup>nd</sup> and 5<sup>th</sup> day of the month for the preceding month. During our review of samples in the Treasury miscellaneous AR report and AFD false alarms processed in 2021 and 2022, we found a total of 51 of 57 (89%) false alarm invoices sampled had been entered into SAP 6 to 82 business days late and averaging 19 days late.
- b. **Recommendation.** The Chief of the Anchorage Fire Department should ensure that staff adhere to the false alarm monthly billing exception approved by the CFO or request a new exception for current monthly billing practices.
- c. **Management Comments.** Management stated, “Management concurs with this finding. The AFD has an exemption in place by the CFO that allows for the AFD to bill monthly. AFD has already taken measures to ensure compliance, which include improved oversight and a programmed schedule for billing.”

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

9. **Policy and Procedure 24-21 Needs Revision.**

- a. **Finding.** Policy and Procedure 24-21 needs to be revised since it was last updated in April 2003, prior to the implementation of SAP. As a result of the Municipality's implementation of SAP in the last half of 2017, billing processes have changed. For example, P&P 24-21 requires each department to prepare a bill for collection request form to bill an existing customer account in the PeopleSoft account receivable system. With the implementation of SAP, this practice is no longer required. Instead, billing information is entered directly into the SAP Accounts Receivable module by the department billing specialist, routed through the department supervisor, and then sent to a Treasury billing specialist for final approval.

Internal Audit Report 2019-05 had the same finding. Management concurred with the finding and stated that a revision to P&P 24-21 had been signed by the Chief Fiscal Officer and it had been sent to the Legal Department on March 8, 2019. At that time, they expected the Mayor to sign the revised P&P prior to May 31, 2019. At the time of this audit P&P 24-21 was still working its way through the review and approval process. Specifically, on June 14, 2022, the Office of Management and Budget sent P&P 24-21 to the Municipal Manager review. That review has not yet occurred.

In addition, the Finance Department did not have established written procedures for processing credit memos for SAP accounts receivable, including requirements for supporting documentation and a timeline for processing credit memos. Specifically, 5 of 36 (14%) credit memos we tested lacked supporting documentation. Further, 7 of 36 (19%) credit memos did not contain sufficient justification in attached documentation to support approval. Timely clearing of credit memos helps accounts age properly and reduces the risk of overstating accounts receivable. Written procedures addressing the



responsibilities for processing and proper documentation for credit memos are necessary to provide guidance, oversight, and accountability. A similar finding was noted in Internal Audit Report 2019-05.

- b. **Recommendations.** The Municipal Manager should review P&P 24-21 to move it forward for final approval. In addition, the Chief Fiscal Officer should establish a P&P for the processing of credit memos for accounts receivable.
- c. **Management Comments.** Management (Acting Municipal Manager) stated, “We concur with this finding and recommendation. Earlier this year Treasury recalled the draft version of P&P 24-21 to include additional language regarding the processing of credit memos. Once Treasury’s revisions have been reviewed by OMB and Legal, the Municipal Manager’s Office will review the changes to P&P 24-21 and ensure that it is forwarded to the Mayor for his signature within 90 days of receipt.”

Management (Chief Fiscal Officer) stated, “We concur with this finding. P&P 24-21 was recalled from the Municipal Manager’s office to include recommendations by Internal Audit to have language on processing credit memos. This information was sent to OMB on March 2, 2023. Additionally, Treasury created a credit memo request form for departments to fill out and attach in SAP with each credit memo processed. The CFO will reach out to Municipal Manager to complete this within 90-120 days of issuance of audit report.”

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

#### 10. **Inconsistent Collection Practices for Personal Property Taxes.**

- a. **Finding.** Treasury staff did not always pursue collection contact activity for delinquent personal property taxes at prescribed follow-up intervals. Specifically, from a sample of

12 delinquent personal property tax accounts from the 2021 tax year, we found that six (50%) accounts did not have follow-up collection activity contact within the intervals specified in Finance Department Operating Instructions FIN 3.B4. In addition, we found that collection follow-up contact activity was not tracked from April 2022 through November 2022 for these same six accounts. According to Treasury staff, the new property appraisal system was not fully functional, and they were not able to track collection activity. A similar finding was noted in Internal Audit Report 2019-05.

- b. **Recommendation.** The Chief Fiscal Officer should ensure that Treasury staff are consistent in their delinquent personal property tax collection contact activities as outlined in FIN 3.B4 and accurately track all collection contact activity.
- c. **Management Comments.** Management stated, “We concur with this finding. The CFO has directed Treasury’s Collection Supervisor to monthly monitor communications with delinquent accounts to ensure requirements are met in accordance with FIN 3.B4. This process will be put in place with the May 2023 delinquent list.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

## OTHER PERTINENT INFORMATION

Since 2018, delinquent accounts receivable are sent for collection to Professional Credit Service (PCS), a collection agency contracted by the Municipality. Professional Credit Services currently holds about \$74.4 million in accounts receivable that have been written-off by the Municipality. Professional Credit Service’s gross collection rate has diminished since they became the sole collection agency in 2018 for current accounts receivable. For example, the collection rate dropped from 3.8 percent in 2020 to 2.1 percent in 2022 for Municipal departments’ accounts receivable and dropped from 2.6 percent to 1.3 percent for DCF collections. According to Finance management, in 2020 collection action was paused for about four months due to COVID.



In addition, Cornerstone Credit Services, LLC continues to provide collection services for delinquent accounts prior to 2014 that were in litigation or in payment plan agreements. The contract between the Municipality and Cornerstone Credit Services, LLC expired on June 23, 2017, and was not renewed.

Delinquent accounts sent to a collection agency are written-off and not included in the ACFR's accounts receivable totals. Therefore, these accounts were not included in this audit since we were not auditing the Municipality's collection contractors.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on March 1, March 3, March 6, March 7, March 10, March 15, and March 17, 2023.

Audit Staff:  
Dalton Benson