



**CITY OF VANCOUVER
INTERNAL AUDIT REPORT
Accounts Receivable Billings**

Distribution:

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EXECUTIVE SUMMARY

February 1, 2024

The Accounts Receivable (AR) Billings audit assessed the timeliness, completeness, and accuracy of invoice billings, as well as the effectiveness of controls within the collection process.

In our opinion, the controls and processes related to AR billings are generally sufficient, but there are opportunities for enhancement. Formalizing policies and enhancing oversight of department-led AR processes, along with continuing the streamlining and automation of processing within SAP, will strengthen the AR function and increase efficiency. Additionally, internal controls can be strengthened with respect to system access and follow-up on overdue accounts.

The more significant findings and recommendations are:

E.1 Formalize and standardize the policy governing Accounts Receivable processes

A city-wide Accounts Receivable policy should be finalized and adhered to by the centralized Accounts Receivable department to ensure consistency in the billing and monitoring procedures. Additionally, consideration should be given to ensuring that billing processes currently managed by other business units are aligned with the policy and are operating consistently and efficiently.

E.2 Continue in efforts to automate and streamline Regular Billing process

The SAP Sales and Distribution (SAP SD) module was implemented in 2021. However, approximately 50% of invoices are still processed through the Regular AR process, involving manual data entry. Continuous optimization across all business units can streamline the invoicing process and reduce the likelihood of inaccuracies.

E.3 Establish a clear policy outlining procedures for applying interest charges on overdue accounts

Presently, interest charges are not consistently applied to all overdue accounts. The notation on current invoices serves more as a warning than a mandate for encouraging prompt payment. Ensuring a consistent approach of charging interests promotes fairness and integrity and encourages prompt payment.

Carmen Fuellbrandt, CPA, CMA, CIA
Chief of Internal Audit

Becky Ma
Senior Internal Auditor

A. BACKGROUND

The City's 2023 year-end Accounts Receivable (AR) totaled \$344 million, which was an increase of 16.5% from 2022. 31.4% of the total AR represented property taxes receivables, 29% was landfill and utility receivables, and 25.1% was trade and other receivables which represent billings for changes to sidewalks, inspection fees, film and special events, damages, and green demolition.

AR Central is responsible for invoicing and monitoring the collections using the SAP system. In 2021, the Sales and Distribution (SD) feature was activated in SAP to streamline the AR process. While the majority of business units have adopted this feature, some continue to utilize the traditional Regular AR process. Within the SD module, business units initiate and close orders, and subsequently notify the AR team for billing. Conversely, the Regular AR process involves submitting invoice requests to AR team via email for manual processing.

In addition, the Vancouver Civic Theatres (VCT) and Mountain View Cemetery (MVC) divisions within the Arts, Culture, and Community Services (ACCS) department are following their own AR policies and procedures and using different systems for billing and monitoring the collections.

B. SCOPE

The AR Billings Audit was performed to provide City Management with an assessment of the adequacy and effectiveness of the internal controls related to the City's accounts receivable and billing processes. To ensure a targeted and risk-based approach, data analysis was conducted on revenue breakdowns, and discussions were held with management. Subsequently, the audit scope was established to include Utilities, overseen by the Engineering department and supported by the Revenue Services – Utilities team, AR Central, VCT and MVC. Our work included:

- Review of the adequacy of policies and procedures relating to AR billing and collections;
- Assessment of compliance with City established and approved rates; and
- Evaluating the effectiveness of existing business and system controls.

C. CONCLUSION

In our opinion, the controls and processes related to AR billings are generally adequate, but there are opportunities for improvements. Formalizing policies and enhancing oversight of department-led AR processes, along with continuing the streamlining and automation of processing within SAP, will strengthen the AR function and increase efficiency. Additionally, internal controls can be strengthened with respect to system access and follow-up on overdue accounts.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

D. RISK ANALYSIS

The potential significant risks considered if controls were not in place are:

Risk Category	Potential Impact
Financial Implications	<p>Inconsistent billing and collection practices may result in delayed or missed payments, impacting cash flow and financial performance.</p> <p>Inaccurate or incomplete tracking of assigned accounts and collection activities may have a negative financial impact due to missed opportunities for recovery, incorrect reporting of receivables, and additional fees incurred from the collection agency.</p>
Operational Efficiency	Absence of standardized procedures may lead to inefficiencies in processing AR, including delays in billing, disputes over charges, and difficulty in tracking outstanding payments.
Core values alignment	Lack of consistent practices may lead to dissatisfaction among customers and damage the City's reputation for fairness and integrity (the City's core values).
Data Integrity	Lack of controls and periodic reviews in key system involved may result in duplicated accounts and inaccurate data, which can impact financial reports and information available to management for decision-making.

E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

E.1 Formalize and standardize the policy governing Accounts Receivable processes

The establishment and adherence to formalized policies and procedures are crucial for maintaining a robust internal control framework, setting standards, and providing employees with the necessary guidance to carry out their duties proficiently.

It was noted that AR Central currently lacks formalized policies to standardize its processes. A general guideline for invoice approval was last updated in March 2018, specifying that invoices exceeding \$10,000 require review by the AR supervisor and those exceeding \$50,000 require review by the Associate Director. However, we noted instances where this guideline was not followed:

- Documentation for approvals was not maintained for three out of the 25 sample invoices reviewed; and
- Three samples with invoice amounts exceeding \$100,000 were approved by the AR Manager instead of the designated Associate Director. According to discussions with management, since the onboarding of the AR Manager, the Associate Director informally delegated approval authority to the AR Manager.

The lack of formalized approval matrix in place could lead to inconsistency in decision-making across the teams, particularly given that there are AR billing functions currently being performed by business units outside of AR Central.

Recommendation:

E.1.1 The Director of Financial Services should oversee that a formalized AR policy is developed and implemented to govern the City-wide AR process. This policy should outline clear procedures, responsibilities, and controls at each stage of the AR lifecycle, including

billing initiation, approval matrix, collection methods, and monitoring mechanisms. Additionally, management should conduct regular review and updates to the policy to ensure alignment with best practices and evolving business needs. This should be completed and communicated to staff involved in these processes by December 31, 2024.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan:

Our Draft AR, Collections & Billing Policy will be reviewed and updated and then circulated for comments from the relevant departments with a goal to publish before Dec 31, 2024. In the Policy there will be formalized delegation mechanism for approval limits.

E.2 Continue in efforts to automate and streamline Regular Billing process

In 2021, the SAP Sales and Distribution (SAP SD) module was used to facilitate the creation of sales orders and invoicing. Despite this, approximately 50% of invoices were processed through the Regular AR process, where business units submitted invoice requests to the AR team, who manually enter invoice details into a Word template. Although an error in one sample's total invoice amount was noted during testing, management believes any discrepancies would be caught when customers make payments based on the invoices.

This reliance on manual data entry under the Regular AR process increases the likelihood of inaccuracies in invoicing, potentially leading to disputes with customers and delays in payment processing. Additionally, the absence of automated validation checks during manual entry increases the risk of errors going undetected until later stages, which could impact the accuracy of financial reporting and customer relations.

Recommendation:

E.2.1 The Director of Financial Services should oversee the establishment of procedures for AR Central to independently verify a sample of invoices to ensure accuracy and completeness. This could involve cross-referencing billed items and unit prices against supporting documentation or conducting periodic audits of invoicing processes. This should be completed by December 31, 2024. In the long term, the Director of Financial Services should oversee the continual optimization of the SAP S&D module to automate and streamline the invoicing process.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan:

Management agrees with this recommendation from Internal audit and will continue to implement Sales and Distribution sourced invoicing.

E.3 Establish a clear policy outlining procedures for applying interest charges and tracking interest payments on overdue accounts

The standard wording on City invoices states “interest of 1% per month will be charged on amounts remaining unpaid after 30 days. The City of Vancouver charges a \$35 administrative fee for any dishonoured cheque”. Through inquiry, it was observed that there was insufficient evidence to confirm the charging of interest for all overdue payments, despite invoices stating a charge of 1% interest per month after 30 days.

Analysis of overdue accounts at the time of the audit resulted in an estimate of \$187K in total interest that could be levied. However, the actual number is likely below this estimate due to an indeterminate number of these accounts representing held deposits, rather than outstanding payments.

Given the absence of a clear policy on interest charges, the statement on the invoice serves more as a warning than a mandate for encouraging prompt payment. Presently, not all overdue customers paid interest charges, and there is no systematic tracking mechanism for interest payments.

Lack of consistent application of interest charges may lead to dissatisfaction among customers and damage the City’s reputation for fairness and integrity. From a financial perspective, ensuring a consistent approach to charge interest on overdue payments will accelerate collection of outstanding accounts, improve cash flow potentials, and generate incremental revenues through interest and fees.

Recommendation:

E.3.1 The Director of Financial Services should oversee the establishment of a clear and enforceable policy regarding the charging of interest on overdue payments. The policy should outline specific procedures for assessing and applying interest charges, including mechanisms for tracking and monitoring payments. This should be established by December 31, 2024.

Management Response:

Agree with the findings

Agree with the recommendations

Disagree with the findings

Disagree with the recommendations

Management Action Plan:

As per E.1.1, management is in the process of finalizing the Accounts Receivable Policy and Procedures, which will include a section on when and where interest can be charged.

E.4 Ensure completeness and accuracy of overdue accounts data sent to collection agency

The City has an established agreement with an external collection agency for overdue accounts. Under the agreement, the City incurs no cost unless the agency successfully collects payments.

A discrepancy between the City’s Outstanding AR Trade report and the collection agency’s inventory report was noted. 878 eligible aging accounts, totaling \$474K, had not been assigned to the collection agency due to various reasons, such as invoices being held up in the Dunning process in SAP system. Relying solely on system controls and the lack of reconciliations between internal AR aging records and inventory reports from the collection agency have resulted in incomplete assignment and monitoring of accounts, prolonging collection delays.

One potential reason for the insufficient monitoring of the external collection agency may be due to the departure of the previous AR collection specialist, which resulted in a vacant position on the team. It is important to ensure regular reconciliations and monitoring to enhance collection efficiency and recovery opportunities.

Recommendation:

E.4.1 The Director of Financial Services should oversee the establishment of reconciliation procedures to regularly compare AR accounts with the Inventory Report provided by the collection agency. This helps identify discrepancies and ensure the accuracy and completeness of the data, enabling timely corrective actions and adjustments as needed. This should be established by December 31, 2024.

Management Response:

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|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan:

Starting Qtr. 2 2024 SAP assigned invoices to the collection agency will be reconciled against the inventory report with the collection agency.

E.5 Enhance SAP user access controls and implement periodic reviews of customer accounts

The best practice is to segregate duties by assigning accounts receivable and accounts payable (AP) responsibilities to different individuals. Failure to properly segregate duties increases the risk of fraud, errors, and the potential for unauthorized transactions.

Upon reviewing the existing SAP user access, two users were noted to possess both AP Clerk and AR Clerk accesses. In addition, the AR clerk had access to AP invoices and credit memo functions which are not essential to their daily responsibilities. Per discussion with management, the primary reason for assigning AP Clerk and AR Clerk roles to the two users was resource constraints. Management was aware of the risks and as a compensating control, established a quarterly review process of the users' activities.

In addition, it was noted that eight out of the nine AR team members possess permissions for customer maintenance, however only two of these users require such access for the active management of customer accounts. Since there is no secondary approval process for customer creation, any user with the access privilege can create customers in the system, which increases the risk of fraudulent activities, such as generating fictitious customers or manipulating customer data.

Recommendations:

E.5.1 The Director of Financial Services should collaborate with Technology Services to align user access privileges with job duties through Role-Based Access Controls, ensuring segregation of duties and minimizing unauthorized access. This should be completed by December 31, 2024.

E.5.2 The Director of Financial Services should oversee the implementation of additional controls, such as requiring a second layer of approval for customer creation and validation checks to prevent duplicate/fictitious accounts in SAP. This should be implemented by December 31, 2024.

Management Response:

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|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan:

E.5.1: AR Manager will continue to perform role-based reviews at least once a year, as has been the current practice throughout 2023.

E.5.2: As per E.1.1, management is in the process of finalizing the Accounts Receivable Policy and Procedures, which will include a section on when and how customers can and should be created.

E.6 Enhance Tempest system controls to prevent the use of incorrect billing rates

Billing rates, as approved and set out in the respective bylaws, are pre-configured in the billing system annually by the Supervisor Accounting Operations for invoicing purposes. While no significant errors in billing rates were noted in the invoices sampled for review, it was observed that the accounting clerk has the ability to manually input billing amounts, bypassing the programmed rates.

As per discussions with management, the billing system will default to the annual rates that are active at the time when a billing or adjustment needs to be performed. There are instances where adjustments need to be made based on prior year rates, such as adjusting rates for special readings during the last week of December. In such cases, accounting clerks can manually input the appropriate billing rate, overriding the default to the current year rate. The billing system will generate a warning message before proceeding, and a second-level review is in place before batches of entries are approved.

While there is a business need for accommodating billing scenarios through manual input of billing amounts, there remains a risk of applying inappropriate rates. Relying solely on detective controls may not detect all errors, posing the risk of inaccurate billings.

Recommendation:

E.6.1 The Director of Financial Services should collaborate with Technology Services to assess the feasibility of modifying the billing system to allow the user to have a controlled selection of rates. This should be assessed by September 30, 2024.

Management Response:

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|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

The following observations pertain to the two departments that manage their own Accounts Receivable:

- Vancouver Civic Theatres (VCT) – Observations E.7 – E.8
- Mountain View Cemetery (MVC) – Observations E.9

E.7 Formalize Policy and Procedures for negotiated rates and handling overdue accounts

VCT uses the Momentum system to create work orders and the business accounting team supports VCT with creating invoices based on the work orders. City Council approves rental rates annually, which are then programmed in the billing system.

Five customers were randomly selected for testing, and it was noted that one customer was offered a special rate that was 10.4% lower than the commercial rental rate. Per inquiry, the special rate was provided to select commercial customers due to the large volume of shows they booked with VCT, and the rate was approved by VCT senior management. There were no documented predefined standards for customer eligibility for special rates. The absence of formal policies for rate changes and customer eligibility standards may result in inconsistent decision-making and lack of control over negotiated rates, potentially leading to revenue loss or disputes. In addition, it may impact the equity and transparency of different rates charged to customers.

Per discussion with VCT management, currently there is also no formalized policy in place to guide the follow-up procedures for overdue customers. Lack of a standardized process may result in delayed payments and revenue loss from overdue accounts. Additionally, failure to promptly follow up on outstanding invoices increases the risk of bad debt write-offs and may impact cash flow.

Recommendations:

E.7.1 The Director of VCT should oversee the development of formal policies and predefined standards for extending negotiated rates and determining customer eligibility for special rates. Clear criteria and approval processes should be in place to enhance consistency and control. This should be established by December 31, 2024.

E.7.2 The Director of VCT should oversee the implementation of a formalized dunning process for overdue accounts, including procedures for issuing dunning letters and escalating collection efforts as necessary. It is suggested to involve consultation with central AR to align policies effectively. This should be implemented by December 31, 2024.

Management Response:

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|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan:

Predefined standards and formal policies for determining customer eligibility for special rates will be documented. The documentation will reflect the current practice for considering special rates within Council-approved rental rates, based on volume of performances and bookings over time, allowing flexibility to respond to business growth opportunities.

Dunning process, including issuing dunning letters, is available in Momentum. Implementation will take place by Q4 of 2024

E.8 Enhance the system access controls and implement periodic review of customer accounts in the Momentus system

Momentus is the system utilized and managed by VCT for maintaining customer accounts, price lists, and creating work orders.

It was noted that there is a lack of system access controls in place to restrict the access to modify price lists. In addition to the system administrators, sixteen users, including Booking & Event Coordinators also have the accesses to modify price lists.

Lack of system access controls enables the users to make unauthorized modifications to price lists. This increases the risk of errors, inconsistencies, and potential misuse of pricing data. This may compromise data integrity, leading to inaccuracies in pricing information.

In addition, there is no periodic review of customer accounts in Momentus to identify potential duplicated/inactive customer accounts. Lack of controls and periodic reviews in Momentus could result in duplicated customer records, leading to misstatements in financial reports, impacting decision-making and causing delay in the regular invoicing process.

Recommendations:

E.8.1 The Director of VCT should oversee the implementation of role-based access controls (RBAC) in the Momentus system to restrict access to rental rates and limit modification rights to authorized personnel. Regular reviews should be conducted to update access privileges as needed. This should be implemented by June 30, 2024.

E.8.2 The Director of VCT should oversee the implementation of audit trails and monitoring mechanisms within the Momentus system to track changes to price lists and identify unauthorized modifications. This should be implemented by June 30, 2024.

E.8.3 The Director of VCT should oversee the implementation of periodic reviews of customer accounts to identify overdue payments, discrepancies, or inactive accounts. This should be established by June 30, 2024.

Management Response:

Agree with the findings

Agree with the recommendations

Disagree with the findings

Disagree with the recommendations

Management Action Plan:

- *RBAC within Momentus is currently underway and will be completed by the end of Q2.*
- *Audit trail functionality is available in Momentus and will be implemented by the end of Q2. Customer accounts are reviewed monthly.*
- *Cleanup of inactive accounts will be a semi-annual project, to ensure all data is archived and duplicate or inactive accounts are eliminated.*

E.9 Formalize the Policy and Procedures for monitoring missed payments

Mountain View Cemetery collects a series of payments over time, with licenses only taking effect upon the receipt of full payment. Based on sample testing of the licenses, the following observations were noted:

- Two out of five samples were lacking supporting documents such as purchase agreements, invoices, and payment receipts.
- Three out of five samples lacked evidence of proactive follow-up for aging accounts. Based on data analysis for customer accounts at the time of our review, 65 out of 1,200 permits were overdue, ranging from 138 days to 1,789 days, with a total value of \$436K. Without clear guidelines for managing aging accounts and proactive follow-ups for aging accounts, there is an increased risk of delayed or uncollected payments.

Recommendations:

E.9.1 The Director of MVC should oversee the establishment of guidelines for assessing customer creditworthiness, managing collections, and addressing delinquent accounts. Procedures for monitoring overdue payments and initiating collection efforts should also be developed. It is suggested to involve consultation with central AR to align policies effectively. This should be implemented by June 30, 2024.

E.9.2 The Director of MVC should explore the opportunities to utilize automated systems or software to generate reminders and alerts for overdue accounts, facilitate timely follow-up activities and reduce the risk of missed collections. This should be completed by June 30, 2024.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan:

- *The cemetery will develop a process for at least quarterly monitoring and follow-up related to missed payments. Credit worthiness will not be pursued at this time.*
- *The cemetery plans to implement a primitive reminder in the financial reporting system in the interim and will explore the potential for adopting comprehensive cemetery software in the future.*