

October 28, 2014

CAAT Accounts Receivable Audit

Background

Financial Services, Accounting Operations manages city-wide accounts receivables with the exception of Vancouver Police Department, Vancouver Public Library and Civic Theatres. These departments manage their own accounts receivables and bill their customers directly.

The City's trade receivables come in many forms and include fees and charges from:

- Film & special events - include services rendered by Engineering, Police, Fire Service, and Park Board
- Engineering Development Services - street use permits and deposits
- Street Operations - board-ups
- Risk Management - motor vehicle accident damage repairs
- Water and Sewer billings - damages such as pulled lines, clean catch basins etc.
- Utility companies - signage, meter hooding and street cuts
- Electrical Operations - street lights/traffic signals, pole moves and conduit repairs
- Kent yards - asphalt pickup
- Sanitation - street cleaning

The City's 2013 year-end Accounts Receivable and Accrued Interest totaled \$96.5 million. It is comprised of five major categories: accrued interest, utility receivables, employee advances, rental and lease receivables and trade and other receivables. Over half of the Accounts Receivable in the trade and other receivables (\$54.3 million) which represent billings for special events, Police board ups, Engineering water and sewer works, compost sale, waste discharge and cost recovery of damages to City properties.

Departments set up work orders in SAP to record project costs. Some projects are one-time events and lasting a few days whereas others, such as a movie or television productions, may last months or years. These factors affect how billings and accounts receivables are generated and treated.

The larger projects require customer deposits and involve progress billing. Short projects are invoiced upon job completion and billed to the customers. The originating department is responsible for the completeness and accuracy of the charges in the work order. Field staff will "technically close" (TECO) a work order to notify Accounts Receivables that a project is ready to be billed.

Invoices are issued, recorded and tracked in the SAP system. Monthly aged receivable outstanding reports (ATB - Aging Trial Balance) are reviewed and analyzed by the Supervisor of Accounts Receivable. Accounting Operations works with the departments responsible for the projects and Legal Services to collect overdue payments.

A first reminder letter is sent after 30 days. If no payment is received, a second dunning letter is sent after 60 days. The overdue invoice is forwarded to Legal Services after 120 days to begin the formal collection process. This process may result in legal action. Departments can request an invoice to be held back from the collection process if there are negotiating directly with the customer for payment. If the collection process is unsuccessful, a recommendation for writing off the invoice is made. Recommendations are reviewed by Financial Services and write-off requires the approval of the Director of Finance. Provisions for bad debts are made based on the type and nature of the receivables.

Scope

The purpose of the audit was to provide reasonable independent assurance to management that the internal controls and business processes are adequate and effective. The scope comprised of a review of the processes including analysis of risk exposure, examination of selected sample transactions, assessment of the systems controls, and evaluation of completeness and integrity of data and codes used in processing accounts receivables.

Specifically, the purpose of the audit was to assure that:

- The City's Accounts Receivable process under review is adequately controlled, effective and efficient;
- Accounts receivable systems controls are being adhered to;
- The City's written policies and procedures are adequate and effective;
- There exists completeness and integrity of data and codes used in processing account receivables; and
- Due diligence has been exercised in the collection process prior to write-off of receivables.

Conclusion

The Audit team found that there is room for improved system access control, work order processing and marina billing. There are also opportunities to increase efficiency in processing board ups, claims recovery and customer deposits. The more significant findings and recommendations included:

- Segregate Marina Billing and Collection Functions: Billing and collection at the two civic marinas are performed by the operators on site where lease agreements are kept and payments take place. Best practices recommend that these functions should be segregated to strengthen financial internal controls.
- Strengthen Interface control between SAP and Tempest Systems: Files with personal and payment data are exchanged between SAP and Tempest system through the network repository daily. Access to the repository folder is restricted but there are still

a number of invalid users on the authorized users list. A review and culling of the user access list to this folder should be undertaken and reviewed regularly going forward.

- Clean-up of SAP Department AR Clerk Access Privilege: Over 150 city staff have the SAP "Department AR Clerk" role privilege. Only a small number of staff actually performs this function. Inactive users should have their role privileges reviewed and, if no longer required, removed.

Management is aware of the areas for improvements and increased efficiencies and is proactively addressing them.