



FINAL

City of Albuquerque
Office of Internal Audit

Martin Chavez, Mayor

Interoffice Memorandum

February 14, 2003

Ref.No.: 98-116F

To: Jay J. Czar, Chief Administrative Officer
Gail D. Reese, Chief Financial Officer
Sandra Doyle, Director, Department of Finance and Administrative Services
Blanca Hise, Director Parks and Recreation Department
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Peter Behrman, Director, Transit Department

From: Debra Yoshimura, Internal Audit Officer, Office of Internal Audit

Subject: FOLLOW-UP REVIEW OF MANAGEMENT OF CITYWIDE ACCOUNTS RECEIVABLE AUDIT REPORT NO. 98-116.

Internal Audit completed a follow-up review of Audit No. 98-116, Management Audit of the Citywide Accounts Receivable. The report was issued on May 17, 2000. The purpose of our review was to determine whether the audit recommendations had been implemented. We determined the following:

RECOMMENDATION NO. 1:

The management of joint powers agreements (JPA) needed to be improved.

- Departments with JPAs with the Bernalillo County (County) were not always communicating changes made in the JPAs to the Accounts Receivable Division (AR) of Treasury's Department of Finance and Administrative Services (DFAS).
- JPAs were not always updated to reflect changing conditions and costs associated with the services provided by the City.
- Monitoring of JPAs and the associated accounts receivable was inadequate.

We recommended that the Mayor/CAO Department improve the Citywide management of JPAs by clarifying the responsibility for the various aspects of the agreements, including initiating, monitoring, updating and collecting the associated accounts receivable. This should be included in a revised Administrative Instruction as recommended in Finding No. 2.

We recommended the management of the JPAs by the individual user departments be improved as follows:

- A. Transit should implement procedures to ensure that AR is promptly notified of changes to the County's share of costs so that billings can be adjusted.

The Cultural Services Department (CSD) should secure County approval of the JPA for the operation of Gov 16. The terms of the JPA should be communicated to AR so that it can bill the amounts owed for FY99 and FY00 to date, as well as establishing future billings on the city's centralized accounts receivable system (AR System).

- B. DFAS should review the JPA for the County's shared use of information systems and negotiate revisions as necessary to reflect current services, costs and technology. Future JPAs should include termination dates and provisions for revision of costs.

DFAS should renegotiate the JPA for the operation of the City County Building and the Law Enforcement Center to ensure that amounts due from the County accurately reflect costs associated with the current square footage space allocations.

- C. The Public Works Department should work with the DFAS Treasury Division to collect the outstanding payment from the County for the JPA for the operation of the Del Norte Pump Station.

The CSD should review the outstanding payment related to the Unified Library System and determine the corrective action that should be taken.

Albuquerque Police Department (APD) should regularly review JPA accounts receivables to ensure that transactions are properly recorded.

ACTION TAKEN

The Mayor/CAO has not implemented the recommendation. According to the CAO, staff turnover and competing priorities prevented the recommendations from being implemented. The project has been restarted and by the end of this fiscal year (2003) the Administrative Instruction will be re-written.

Transit has partially implemented the recommendation. The Fiscal Manager is ensuring that AR is promptly notified of changes in amounts due to the City from the County. Sun Tran accounts receivable are being recorded to the AR System, however, charges to the County for Sun Van services are still being managed at the department level only.

CSD has fully implemented the recommendations. A current JPA with the County for the operation of GOV 16 is in place. AR is now informed regarding the payments required from the County. A review of the payment history shows all payments are current.

DFAS has partially implemented the recommendation. The Information Systems Division (ISD) has updated JPAs for the sharing of information systems and radios. ISD is in the process of updating JPAs for the phone service shared by the City and County.

DFAS has not renegotiated the JPA for the operation of the City County Building and the Law Enforcement Center to ensure that amounts accurately reflect current costs associated with the buildings. The City is still operating under the terms and conditions of the MOU dated March 31, 1994 that established the budget for the JPA. Although the City is billing the County based upon current square footage, the JPA does not reflect this.

Public Works has fully implemented the recommendation by performing the steps outlined in its response to the audit. According to Public Works, a final payment was received from the County for fiscal year 1999 on June 30, 1999. Documentation reviewed shows that the agreement with the County for the operation of the Del Norte pump station was terminated on July 1, 1999.

CSD has partially implemented the recommendation. On July 1, 1999 the City entered an agreement with the County for operation of the Unified Library System. In June 1999, the County was notified that the amount of monies due from the County would be increased. The City cited increases in salaries for the staffing of the Unified Library System as the primary reason. The County paid an outstanding balance of \$727,132 that included charges for services for FY2001 and FY2002 in November 2002. Staff from CSD should meet regularly with County staff to ensure that disputes over charges for services are resolved to ensure timely payments.

APD has fully implemented the recommendation. The accounting division of APD is responsible for monitoring accounts receivable APD has with the County for the management of the Crime Lab. The payment history is monitored monthly to determine if the payments are being received and recorded properly on the AR System.

FOLLOW-UP RECOMMENDATIONS:

DFAS should require periodic progress reports from the committee responsible for recommending revisions to the City's AR policies.

DFAS should complete the process to update the JPA for phone service shared by the County.

DFAS should renegotiate the JPA with the County for the operation of the City County Building and the Law Enforcement Center.

Transit should ensure that amounts charged to the County for Sun Van service is recorded on the AR System.

CSD should continue to meet regularly with County staff to resolve and answer any questions in order to ensure timely payments.

EXECUTIVE RESPONSE FROM DFAS

***“The Department of Finance & Administrative Services expects the updated accounts receivable policy will be approved by the end of March 2003.*”**

***“A new JPA for telephone service with the County is expected to be completed by May 1, 2003.*”**

“A new JPA with the County for the operation of the City/County Building and the Law Enforcement Center will be completed by June 30, 2003.”

EXECUTIVE RESPONSE FROM TRANSIT

“The Transit Department will process Sun Van receivables through DFAS.”

EXECUTIVE RESPONSE FROM CULTURAL SERVICES

***“Compliance with the auditor's recommendations is continuing. Payments from the County are up-to-date.*”**

“Library staff met in February 2003 with County accounting officials and all parties have agreed on the documentation needed to keep payments current in FY 03. All receivables are current. Negotiations are underway to update the last memorandum of understanding, and to inform County officials of projected cost increases for Library Services in FY 04. Additional meetings will be scheduled as needed to maintain communication and ensure timely payments.”

RECOMMENDATION NO. 2:

Administrative Instruction No. 2-2, (Instruction) Accounts Receivable Policy, dated September 1992, needed to be updated to reflect the way the City is currently doing business. The Instruction was based on policies contained in Administrative Instruction No. 67, which was issued on

February 19, 1985. Since the volume of accounts receivable and City automated systems have changed, the Instruction no longer accurately reflects the way ARs should be processed.

We recommended that DFAS continue its efforts to update the policies and procedures related to miscellaneous accounts receivable.

We recommended that the revised Instruction assign responsibilities for accounts receivable procedures and processes including:

- initiating collection procedures on past due accounts
- generating statements
- entering receivables in the city's AR System
- reconciling the departments' receivables to the entries on the City's AR System
- recommending accounts receivable for write-off, and notifying DFAS that they should be included in the write-off bill for approval by the City Council
- maintaining accounts receivable documentation
- entering credits to customer's accounts
- placing holds and "do not mail" instructions on customer accounts
- reviewing entries to the AR system for accuracy and validity
- issuing Dunning letters (past due notices)
- accepting and recording payments of accounts receivable
- monitoring accounts receivable

The revised Instruction should also establish a citywide credit policy to apply in the absence of a department or program specific credit policy. It should require certification of any user department employees who perform accounts receivable duties such as preparing accounts receivable documentation, entering accounts receivable in the AR System, or collecting accounts receivable.

DFAS should review the other sources of accounts receivable and determine whether they should be included in the Instruction, or if they should be addressed in separate documents.

ACTION TAKEN

DFAS has partially implemented the recommendation. An AR Committee was established and meetings were held for a short time after the original audit report was released. The Committee was reconvened in September 2002 and has been working since that time to develop a revised AR policy. A separate credit policy will also be developed for the miscellaneous ARs.

FOLLOW-UP RECOMMENDATION:

DFAS should establish a timeframe for the AR Committee to complete the revised Administrative Instruction and credit policy.

EXECUTIVE RESPONSE FROM DFAS

“The Department of Finance & Administrative Services expects the updated accounts receivable policy will be approved by the end of March 2003.”

RECOMMENDATION NO. 3:

We recommended that the DFAS identify the departments generating accounts receivables and work with those departments to develop agreements in accordance with Administrative Instruction No. 2-2. Agreements should include a requirement that DFAS Treasury Division receive all payments on the accounts receivable.

Internal Audit also recommended that DFAS continue its efforts to implement a revised process and take the necessary action to ensure that accounts receivable are effectively administered, coordinated and monitored.

Operating departments did not always have the required Agreements of Understanding. According to the Instruction, departments should have agreements with DFAS, detailing how the departments' receivables should be processed. Also, the departments reviewed did not have the required credit policies as required in the Instruction. Other deficiencies noted included the absence of separation of duties associated with Accounts Receivable. The Instruction assigns duties so that separation of duties is provided. Not all departments were following these guidelines for separation of duties.

ACTION TAKEN

The recommendation has not been implemented. DFAS is waiting to initiate changes until the new AR policy and credit policy are implemented.

EXECUTIVE RESPONSE FROM DFAS

“Under the updated accounts receivable policy, departments will be required to document their procedures for handling receivables.”

RECOMMENDATION NO. 4:

Some departments were failing to follow the guidelines set out in Administrative Instruction No. 2-2, that departments record all receivables on the City's AR system and that the Treasury Division of DFAS collects payments.

We recommended that APD and the Human Resources Department (HRD) provide AR with the necessary information to bill the County for monies due. APD performs police services for the County for which the County reimburses the City. HRD has an agreement with the County to share in the costs for Health and Dental Insurance for employees. AR was not processing payments and contracts for the insurances.

We also recommended that the Parks and Recreation Department (PRD) and CSD process their accounts receivable through AR, in accordance with the Instruction. Payments on accounts should not be accepted by these departments, but should be received and recorded by the Treasury Division. PRD was receiving payments for the rentals of Open Space. These contracts and payments were being processed directly by the department and not going through AR as required. CSD was processing the rental contracts and fees for the rental of the Museum.

ACTION TAKEN

APD has fully implemented the recommendation. The JPA with the County has been given to AR so that the receivable may be administered. APD fiscal is monitoring the receivable to ensure that the amounts recorded are correct and paid on a timely basis as required by the JPA.

HRD has fully implemented the recommendation. HRD stated that DFAS is not providing them with the information they need to adequately monitor payments or reconcile balances.

The Parks and Recreation Department has not implemented the recommendations made in the audit of accounts receivable. Contracts, billings and collection of fees related to rentals of open space are still being processed by the department and not by AR as recommended. From discussions with individuals responsible for rentals of open space, there is some concern that the type of receivable cannot be cost effectively processed using AR. The rentals are for small amounts and infrequent.

The CSD has not implemented the recommendation. CSD is initiating contracts, invoicing and collecting fees. According to personnel responsible for the rental of museum space, it is better if the clientele who rent the museum interface with personnel at the Museum and not through AR. Since some charges passed on to the client are dependent on services performed by a third party, there may be a delay in processing invoices.

Neither CSD nor PRD has had representatives attend the AR Committee meetings to ensure that the new policies meet their needs. Both departments were invited to attend the meetings and participate in the process.

FOLLOW-UP RECOMMENDATIONS:

PRD and CSD should ensure that their fiscal personnel attend AR Committee meetings to ensure that the new AR and credit policies meet their needs.

EXECUTIVE RESPONSE FROM PRD

“The Parks and Recreation Department will attend future committee meetings.”

EXECUTIVE RESPONSE FROM CSD

“The Cultural Services Department will attend future committee meetings.”

RECOMMENDATION NO. 5:

We recommended that DFAS ensure that responsibility for the accuracy of accounts receivable balances and review or reconciliation is clear in the revised Instruction for accounts receivable. DFAS should assist the departments and divisions in developing reconciliation procedures.

Not all departments or divisions reconcile or review their accounts receivable to ensure that balances and payments are recorded correctly.

ACTION TAKEN

The recommendation has not been implemented.

FOLLOW-UP RECOMMENDATION:

DFAS should include the issues of reviews and reconciliations in the revisions to the Instruction. The AR committee should address this issue in their review and recommendations for revisions.

EXECUTIVE RESPONSE FROM DFAS

“The AR committee’s draft policy due out by the end of March 2003 addresses these issues.”

RECOMMENDATION NO. 6:

Confirmations were sent to a sample selected from the City's accounts receivable. Responses from individuals with ARs with the City showed many instances of errors in balances and information regarding the AR. Departments are not consistently monitoring their receivables to ensure that the information recorded on the AR System is accurate.

We recommended that DFAS inform each department of its responsibility for the accuracy of accounts receivable originated by the department, resolving disputes with customers regarding their accounts and ensuring that customer addresses are current. We also recommended that DFAS inform each department that payments are to be sent directly to Treasury for processing.

We recommended that PRD develop reconciliation and review procedures for accounts receivable recorded on the AR System to ensure that amounts are recorded accurately and that errors are corrected in a timely manner.

ACTION TAKEN

DFAS has not implemented the recommendation.

PRD has fully implemented the recommendation. The PRD financial analyst is monitoring the recording of receivables and payments made on ARs.

EXECUTIVE RESPONSE FROM DFAS

“These issues are addressed in the draft AR committee policy recommendation, which is being developed in cooperation with departmental level fiscal staff.”