



**Accounts Receivable Program Audit
No. A2022-04**

Issued by the
Internal Audit Office
August 11, 2022

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

EXECUTIVE SUMMARY

The Internal Audit Office has concluded the Accounts Receivable Program Audit. Based on the results of the audit, three findings were identified. The findings are considered significant in nature due to internal control breakdowns and violations of City policy.

We reviewed the following seven (7) City Departments: (1) Office of the Comptroller, (2) El Paso Zoo, (3) Environmental Services Department, (4) Street and Maintenance Department, (5) Sun Metro, (6) Animal Services, (7) Parks and Recreation Department.

Listed below is a summary of the findings identified in this report:

1. Our review identified seven (7) out of seven (7) departments (100%) are following their own interpretation of how Accounts Receivable should be billed. The *City of El Paso Accounts Receivable Policy* dated September 2020 should be updated to contain specific procedural guidance for City Departments in the following areas:
 - Defining transactions to be recorded in the PeopleSoft Accounts Receivable Module.
 - Training requirements for staff who process Accounts Receivable transactions.
 - Steps to record, invoice, and post payments for Accounts Receivables.
 - Reconciling Accounts Receivable payments posted in PeopleSoft to invoices issued.
 - Reporting Accounts Receivable information to the Office of the Comptroller (OTC).
2. Our review identified seven (7) out of seven (7) departments (100%) who created their own procedures for the collection and account management of past-due Accounts Receivable. The *City of El Paso Accounts Receivable Policy* should be updated to contain specific procedural guidance for past-due account management that address the following:
 - A policy to determine whether City Departments or the Office of the Comptroller, is responsible for collecting on past-due Accounts Receivable accounts.
 - A procedure to refer past-due Accounts Receivable accounts to a 3rd-party collection agency. Departments do not know whether the option is available to them.
 - A policy of restricting customers with past-due Accounts Receivable accounts from conducting future business with the City of El Paso.
3. Our review identified six (6) out of seven (7) departments (85.72%) are not following the *City of El Paso Accounts Receivable Policy* for recording, invoicing, posting, and reconciling billable activities:
 - Three (3) out of seven (7) departments (42.86%) do not consistently record and track all their billable activities in the PeopleSoft Accounts Receivable Module.
 - Two (2) out of seven (7) departments (28.58%) are not invoicing customers within 30 days from the date of providing a service.
 - One (1) out seven (7) departments (14.29%) had a payment for a receivable posted to an incorrect account. Since the department did not receive the payment, the receivable became delinquent and was allocated to the Allowance for Doubtful Accounts.
 - Five (5) out of seven (7) departments (71.43%) conduct monthly Accounts Receivable reconciliations. Only one (1) department provides a monthly Accounts Receivable report to OTC.

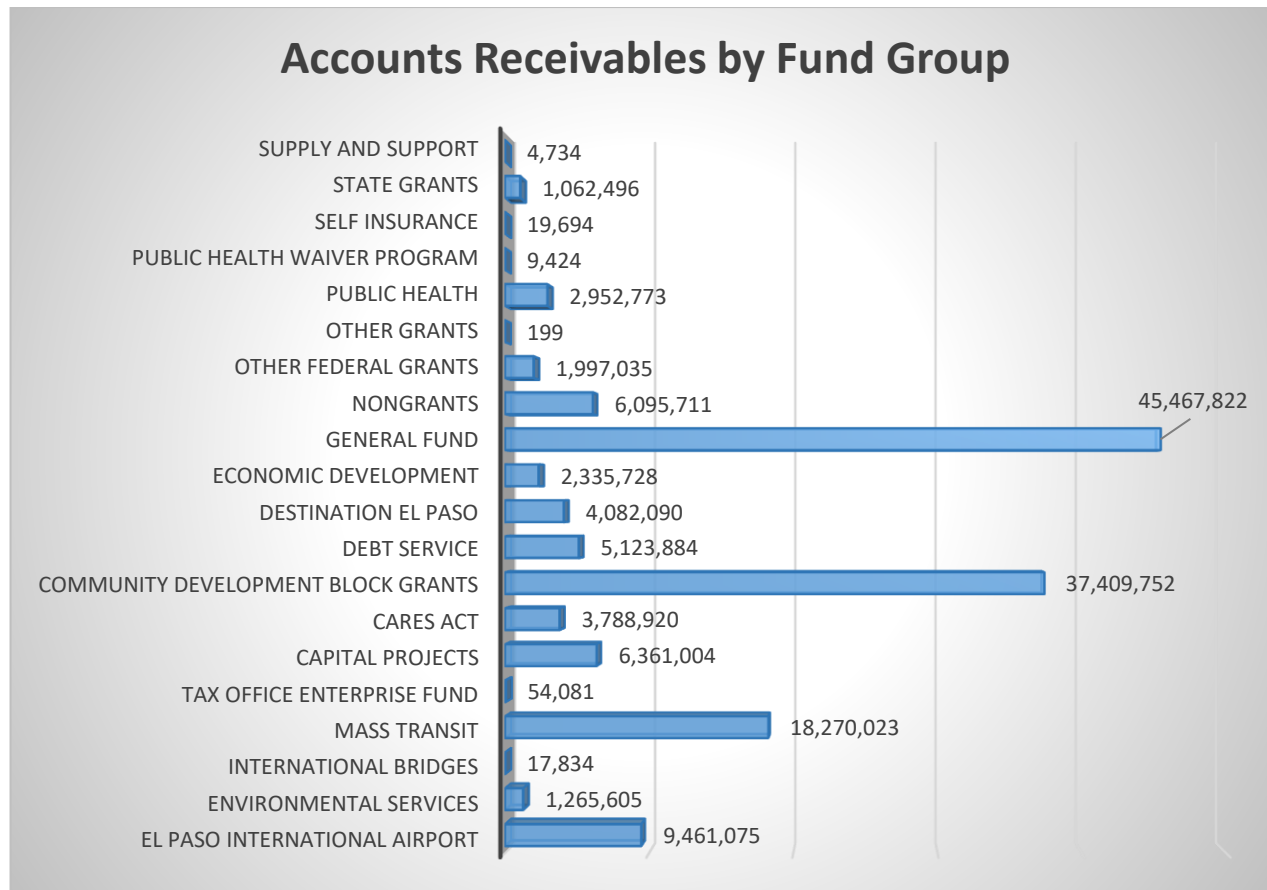
For a detailed explanation of the findings, please refer to the body of this Audit Report.

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

BACKGROUND

Accounts Receivable is frequently the largest asset that an organization has. An Accounts Receivable is defined as a current asset representing money due for services performed. Establishing an effective Accounts Receivable operation is necessary to maximize revenue collection. Revenue for the City of El Paso comes in different forms, which include service fees, licenses and permits, fines, and taxes. These revenues are collected in various ways, including cash collections at the point of service, remittances by the state or county, and invoiced billings through the City’s Accounts Receivable Program for services, fines, or other charges for payment at a later date.

The City of El Paso reported \$145,779,884 in Accounts Receivables in the *Annual Comprehensive Financial Report (ACFR)* dated August 31, 2021. The following chart illustrates a breakdown of the \$145,779,884 in Accounts Receivable by Fund Group (a Fund is a pool of money set aside for specific activities or objectives).



Approximately 80% of the \$145,779,884 Accounts Receivable amount is due from Governmental Activities and approximately \$29,068,618 (or 20%) is due from Business-type Activities. Governmental Activities are normally supported by taxes, granting agencies, and intergovernmental revenues. Business-type Activities rely on fees and charges to external customers for support.

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

As of August 31, 2021, the City of El Paso had \$10,060,839 from both Governmental and Business-type Activities deemed as uncollectible in the *Allowance for Doubtful Accounts*. The *Allowance for Doubtful Accounts* contains Accounts Receivable amounts that have no likelihood of being paid to the City of El Paso. Per the *City of El Paso Accounts Receivable Policy* dated September 2020, the Office of the Comptroller (OTC) can allocate any accounts over 60 days past-due to the *Allowance for Doubtful Accounts*. Any Accounts Receivable due from a government or granting agency are not subject for allocation to the *Allowance for Doubtful Accounts*. At the end of each Fiscal Year, OTC determines which past-due accounts to be added to the *Allowance for Doubtful Accounts* reported in the Annual Comprehensive Financial Report (ACFR).

This Audit focused on receivables from Business-type Activities posted in the PeopleSoft Accounts Receivable Module. As of December 31, 2021, the City of El Paso had \$16,459,526.96 posted in the PeopleSoft Accounts Receivable Module for *Trade Account 125000*. \$11,498,150.95 (69.86%) of the receivables were over 121 days old. The following is a listing of top 10 current* customers with the highest dollar amount of outstanding receivables as of December 31, 2021:

*Current – defined as customer invoiced in 2021

Top 10 current customers with outstanding Accounts Receivables **over** 121 days old:

	Customer Name	Description of Invoices	Amount over 121 days old
1	EL PASO WATER UTILITIES BOARD	Reimbursement for street resurfacing, street reconstruction, graffiti removal, and use of City landfill.	\$ 543,985.93
2	FRIEDMAN RECYCLING CO	Recycling contract fees.	\$ 540,799.01
3	TEXAS DEPT OF TRANSPORTATION	Police overtime reimbursement.	\$ 472,977.80
4	AMERICAN AIRLINES	Airport – landing fees, use of terminal & ground areas.	\$ 428,917.00
5	EL PASO WATER UTILITIES	Airport ground rental, hazmat fees, misc.	\$ 310,462.75
6	COUNTY OF EL PASO	Various City services.	\$ 297,313.47
7	AIRPORT PARK-A-LOT EL PASO LLC	Airport ground rental.	\$ 195,263.66
8	SERVICE SYSTEMS ASSOCIATES	Zoo Pavilion rental & reimbursement of utility costs for Zoo facilities.	\$ 118,994.80
9	UNITED AIR LINES, INC.	Airport – landing fees, use of terminal & ground areas.	\$ 103,253.13
10	DTG OPERATIONS, INC. DBA DOLLAR	Airport Rental Car – Concession Fee.	\$ 67,280.43
		Total:	\$ 3,079,247.98*
		Less Uncollectible	- \$ 1,450,216.39
		Collectible	\$ 1,629,031.59

*\$1,450,216.39 out of the \$3,079,247.98 has been deemed as uncollectible.

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

Top 10 current customers with outstanding Accounts Receivables under 121 days old:

	Customer Name	Description of Invoices	Amount under 121 days old
1	EL PASO WATER UTILITIES BOARD	Reimbursement for street resurfacing, street reconstruction, graffiti removal, and use of City landfill.	\$ 1,448,802.96
2	TEXAS DEPT OF TRANSPORTATION	Reimbursement for Police overtime & TXDOT Capital Projects.	\$ 1,362,491.98
3	UNION PACIFIC RAILROAD COMPANY	Street closure for three (3) right-of-way railroad closing for the MCA Quiet Zone.	\$ 495,000.00
4	AMERICAN AIRLINES	Airport – landing fees, use of terminal & ground areas.	\$ 486,181.83
5	FRONTIER AIRLINES, INC.		\$ 115,350.87
6	TRANSTELCO INC	Annual Stanton & Zaragoza Bridge fee.	\$ 102,303.93
7	EL PASO STADIUM OPERATIONS CO.	Reimbursement for stadium lighting costs.	\$ 91,971.16
8	MCALLEN DATA CENTER, LLC	Underground conduit lease fee.	\$ 89,368.03
9	COUNTY OF EL PASO	Various City services.	\$ 87,066.78
10	UNITED AIR LINES, INC.	Airport – landing fees, use of terminal & ground areas.	\$ 82,074.20
Total:			\$ 4,360,611.74*

*\$0 out of the \$4,360,611.74 has been deemed as uncollectible.

The City of El Paso maintains a decentralized Accounts Receivable system composed of business units (which may be comprised of several departments). It is the responsibility of each business unit to record its own receivables, obtain customer information, invoice, apply its own payments, and collect on its own accounts. Office of the Comptroller processes billing for business units who do not have access to the Accounts Receivable Billing Module in PeopleSoft. Decentralizing the City’s receivables ensures that the employee’s closest to the transaction, with the most knowledge about the services being provided, and who have quick easy access to the billing system, will be the first point of customer contact. Although the billing systems are decentralized, the City’s Office of the Comptroller bears ultimate responsibility for ensuring that billing and collection efforts are carried out in an efficient and effective manner.

AUDIT OBJECTIVES

The objectives of the Accounts Receivable Program Audit were to determine whether the City of El Paso has effective controls, systems, and personnel to ensure accounts receivable are properly:

- Accounted for – by determining if accounts receivables are accurately recorded and invoiced in a timely manner in accordance with the *City of El Paso Accounts Receivable Policy* dated September 2020,
- Collected – by determining if delinquent accounts are being collected in accordance with procedures and internal controls over billing and collection,
- Reported – by determining if the Accounts Receivable balances provided to and reported by the Office of the Comptroller are accurate.

AUDIT SCOPE

Outstanding Accounts Receivables from Business-type Activities as of Fiscal Year 2021-2022.

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

AUDIT METHODOLOGY

To achieve our audit objectives, we:

- Conducted a review of Accounts Receivable balances broken down by City Department.
- Selected the following seven (7) City Departments to review:
 - Animal Services,
 - El Paso Zoo,
 - Environmental Services Department,
 - Office of the Comptroller,
 - Parks and Recreation Department,
 - Street and Maintenance Department,
 - Sun Metro.
- Interviewed employees responsible for performing Accounts Receivable duties to obtain an understanding of the procedures for recording and invoicing Accounts Receivable at selected City Departments.
- Conducted a review of unpaid receivables posted in the PeopleSoft Accounts Receivable Module as of December 31, 2021 to ensure transactions were properly approved, computed, documented, issued, and posted.
- Conducted a review of the monitoring and oversight of Accounts Receivables.
- Conducted a review of the reconciliations of Accounts Receivables at selected City Departments.
- Obtained an understanding of the reports/documents that are provided to and generated by the Office of the Comptroller to report Accounts Receivable balances.
- Reviewed and documented Policies and Procedures in place by the Office of the Comptroller to review and approve the information in the reports/documents.
- Determined if the Policies and Procedures contain adequate controls in order to provide proper oversight.
- Reviewed most recent Accounts Receivable Balances reported on the year-end financial statements to determine if receivables are being accurately reported.
- Obtained an understanding of how the Allowance for Doubtful Accounts is calculated annually at the end of each fiscal year.
- Reviewed most recent amount reported for the City's Allowance for Doubtful Accounts for accuracy.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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.

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

The definition of a “Significant Finding” is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, is a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a “Regular Finding”.

Finding 1

Comprehensive Accounts Receivable Procedures

City of El Paso Strategic Plan:

- Goal 6.3 *Implement programs to reduce organizational risk.*
- Goal 6.6 *Ensure continued financial stability and accountability through sound financial management, budgeting and reporting.*
- Goal 6.12 *Maintain systems integrity, compliance and business continuity.*

City of El Paso Accounts Receivable Policy dated September 2020:

- Section 2.0 Purpose: *The Accounts Receivable Policy contains policies relating to the recording, management, and collection of Accounts Receivable throughout the City of El Paso (“City”).*
- Section 3.0 Goals and Objectives: *Review and update goals, policies and procedures regularly to properly account for, report, manage, and collect receivables.*
- Section 6.0 Structure of Accounts Receivable System, 6.3: *Each business unit shall develop and maintain written procedures, however; each department is expected to abide by this policy.*

A strong system of internal controls requires that Policies and Procedures be written by management to establish criteria for executing routine or repetitive activities followed by an organization. The development and use of Policies and Procedures are an integral part of a successful quality system as it provides employees with the information and guidance to perform a job properly.

Our review identified seven (7) out of seven (7) departments (100%) are following their own interpretation of how Accounts Receivable should be billed. City Departments have created their own Accounts Receivable procedures that do not abide by the *City of El Paso Accounts Receivable Policy*. The *City of El Paso Accounts Receivable Policy* lacks specific procedural guidance for City Departments in the following areas:

- Defining which Accounts Receivable transactions need to be recorded in the PeopleSoft Accounts Receivable Module.
- Training requirements for staff who process Accounts Receivable transactions.
- How to record, invoice, and post payments for Accounts Receivables.
- Steps to set-up Accounts Receivable payment plans for rental of City facilities.
- Reconciling Accounts Receivable payments posted in PeopleSoft to invoices issued.
- How to correct errors for Accounts Receivable payments that are applied to an incorrect income account in PeopleSoft.
- Reporting Accounts Receivable information to the Office of the Comptroller.

City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04

Recommendation

The Office of the Comptroller should update the *City of El Paso Accounts Receivable Policy* to contain specific billing procedures for City Departments. Specific guidance will assist in bringing uniformity to the Accounts Receivable practices in place at City Departments.

The manual should include the following areas:

- Define which services and activities provided to customers need to be recorded in the PeopleSoft Accounts Receivable Module.
- Provide procedures on how to correctly record, invoice, and post payments for Accounts Receivables in PeopleSoft.
- Identify procedures on how to set up payment plans for Accounts Receivable on the rental of City facilities in PeopleSoft.
- Ensure customer invoices contain clear identifying information to ensure payments are applied accurately.
- Provide procedures on how to reconcile payments posted in PeopleSoft.
- Provide procedures for departments to follow when they identify that a payment was posted to an incorrect account.
- Establish the Accounts Receivable information that must be provided to the Office of the Comptroller.

Once developed, City personnel that perform Accounts Receivable functions should be trained on the updated Accounts Receivable Policy.

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

Management's Response

Office of the Comptroller does not consider finding number one to be a finding. As per responses below, the specific points in the audit report do not demonstrate any violation of policy or any internal control breakdown. We do agree that the audit department has great recommendations for improvements and appreciate their comments.

As per audit report Finding 1: *City Departments have created their own Accounts Receivable procedures that do not abide by the City of El Paso Accounts Receivable Policy:*

- As per section 6.3 of the AR policy, It is the policy of the City that each department develops their own procedures. *“Each business unit shall develop and maintain written procedures, however; each department is expected to abide by this policy.”* With Accounts Receivable being a decentralized process across the City, the policy permits departments to develop procedures that serve their needs.
- Internal Audit identified that departments are not using PeopleSoft for all accounts receivable transactions; however, the policy does not require the use of PeopleSoft.
- Training on the basic use of PeopleSoft is not part of policy or in the scope of the services OTC provides, that is the responsibility of each employee to learn how to use the system to successfully do their job.
- Reconciliation of receivables to trial balance is done by OTC

The *City of El Paso Accounts Receivable Policy* lacks specific procedural guidance for City Departments.

As per the Government Finance Officers Association: “When developing policies, it is important to avoid comingling policy with procedure. Failure to do so can make the strategic intent of the policy less clear and may dilute the force of organization’s commitment to the underlying principles or goal of the policy.” Kavanagh S.C. (2012). *Financial Policies*. Chicago, IL. Government Finance Officers Association. Pg 12. There is no authoritative guidance that we are aware of that mandate comingling of policies with procedures.

Responsible Party

Implementation Date

Chief Internal Auditor's Response

The Chief Internal Auditor has reviewed the comments received from the Office of the Comptroller and disagrees with the comments submitted. The comment stating that Finding 1 is not a finding is not a decision for the Office of the Comptroller to make. That decision is the responsibility of the Chief Internal Auditor. In addition, the Chief Internal Auditor is concerned with the level of risks involved in managing the Accounts Receivable Program for the City of El Paso. With an Accounts Receivable balance of over \$145 Million as of August 31, 2021, it is concerning that the Office of the Comptroller would choose to disagree with the Findings and question our audit methodology.

The information contained in Finding 1 is intended to inform the Office of the Comptroller of the current situation with the 7 Departments analyzed. The 7 Departments are operating on their own interpretation of the Accounts Receivable Policy. As a result of our analysis, it was determined that City Departments need guidance and assistance on establishing their Accounts Receivable balances.

City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04

As clarification to the comments submitted by the Office of the Comptroller, we offer the following additional information:

- The Office of the Comptroller commented “As per section 6.3 of the AR policy, It is the policy of the City that each department develops their own procedures. ‘Each business unit shall develop and maintain written procedures, however; each department is expected to abide by this policy.’ With Accounts Receivable being a decentralized process across the City, the policy permits departments to develop procedures that serve their needs.”
 - Our Audit identified that City Departments have created their own procedures that do not meet the requirements established by the Accounts Receivable Policy.
- The Office of the Comptroller commented “Internal Audit identified that departments are not using PeopleSoft for all accounts receivable transactions; however, the policy does not require the use of PeopleSoft.”
 - **Accounts Receivable Policy Section 2.0 Purpose** states “These policies are intended for all City staff responsible for processing customer invoices through the PeopleSoft Accounts Receivable module.” **Accounts Receivable Policy Section 12.2** states, “Adequate separation of duties must exist. That would include the establishment and the maintenance of Accounts Receivable in the PeopleSoft System...”
- The Office of the Comptroller commented “Training on the basic use of PeopleSoft is not part of policy or in the scope of the services OTC provides, that is the responsibility of each employee to learn how to use the system to successfully do their job.”
 - Our Audit identified that City Department staff need specific training on establishing their Accounts Receivable. The Internal Audit Office is not recommending training be part of the Accounts Receivable Policy. We are recommending the Office of the Comptroller arrange training for the City Departments. There is a definite need for Accounts Receivable training.
- The office of the Comptroller commented “Reconciliation of receivables to trial balance is done by OTC.”
 - Our Audit identified that City Departments are currently completing Accounts Receivable reconciliations and have done so in the past. City Departments are just unsure if they should forward the reconciliations to the Office of the Comptroller. **Accounts Receivable Policy Section 12.6** states “Independent parties are to reconcile the bank deposits to the general ledger activity, customer’s account, and receipts.”

As required by *Federal Generally Accepted Government Auditing Standard 9.52* and the *International Standards for the Professional Practice of Internal Auditing Standard 2600* which the Internal Audit Office follows, the Chief Internal Auditor has determined:

1. The Chief Internal Auditor and the Office of the Comptroller cannot come to an agreement on Finding 1.
2. The Office of the Comptroller will assume the associated risks with the Accounts Receivable Program for the City of El Paso.
3. An inquiry will be made in 6 months with the Office of the Comptroller to determine if any corrective action has occurred within the Accounts Receivable Program.

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

Finding 2

Procedures for Past-Due Accounts Receivable Accounts

City of El Paso Strategic Plan:

- Goal 6.3 *Implement programs to reduce organizational risk.*
- Goal 6.6 *Ensure continued financial stability and accountability through sound financial management, budgeting and reporting.*
- Goal 6.12 *Maintain systems integrity, compliance and business continuity.*

City of El Paso Accounts Receivable Policy dated September 2020:

- Section 3.0 Goals and Objectives:
 - *Collect Accounts Receivables promptly in order to improve cash flow.*
 - *Review and update goals, policies and procedures regularly to properly account for, report, manage, and collect receivables.*
- Section 6.0 Structure of Accounts Receivable System, 6.4: *Collection of revenue owed to the City is a core responsibility of each business unit and shall use its best efforts to service and collect such Accounts Receivable.*
- Section 9.0 Collections on Current and Past Due Accounts:
 - 9.3 – *A City department may contract with an outside agency to assist in Default Management as defined by the City.*
 - 9.5 – *All departments are responsible for collecting on amounts invoiced and identifying staff assigned with these duties.*

A strong system of internal controls requires that Policies and Procedures be written by management to establish criteria for executing routine or repetitive activities followed by an organization. The development and use of Policies and Procedures are an integral part of a successful quality system as it provides employees with the information and guidance to perform a job properly.

Our review identified seven (7) out of seven (7) departments (100%) follow their own procedures for the collection and account management for past-due Accounts Receivable. The *City of El Paso Accounts Receivable Policy* lacks specific procedural guidance for past-due account management that address the following:

- A policy to assign the responsibility of collecting on past-due Accounts Receivable in situations where OTC creates an invoice on behalf of a City Department. Currently, the Policy does not address whether it is the responsibility of OTC or the City Department to collect on past-due accounts.
- A process for City Departments to follow when customers have not responded to collection efforts.
- A procedure to refer past-due Accounts Receivable accounts to a 3rd-party collection agency. Departments do not know whether the option is available to them.
- A process to charge customers for collection costs incurred in pursuit of past-due Accounts Receivable accounts.
- A policy of restricting customers with past-due Accounts Receivable accounts from conducting future business with the City.
 - For example, the Environmental Services Department refuses access to the Greater El Paso Landfill to customers with a past-due Accounts Receivable account.

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

Recommendation

The Office of the Comptroller (OTC) should update the *City of El Paso Accounts Receivable Policy* to incorporate the following guidance for the collection and account management of past-due accounts:

- Determine which past-due Accounts Receivable accounts need to be collected by departments or by OTC.
- List collection activities to conduct on past-due Accounts Receivable accounts, such as, contacting customers and sending follow-up invoices.
- Identify procedures to refer past-due accounts to a 3rd-party collection agency.
- Identify if and how to charge collection costs incurred in pursuit of past-due Accounts Receivable accounts.
- Identify if and how to restrict customers with past-due Accounts Receivable accounts from conducting future business with the City.

Once developed, City personnel that perform Accounts Receivable functions should be trained on the updated Accounts Receivable Policy.

Management's Response

Office of the Comptroller does not consider finding number Two to be a finding. As per responses below, the specific points in the audit report do not demonstrate any violation of policy or any internal control breakdown. We do agree that the audit department has great recommendations for improvements and appreciate their comments.

Finding 2: Our review identified seven (7) out of seven (7) departments (100%) follow their own procedures for the collection and account management for past-due Accounts Receivable. The *City of El Paso Accounts Receivable Policy* lacks specific procedural guidance for past-due account management.

From the AR Policy:

6.2 Each business unit should record its own receivables, apply its own payments, and collect on its own accounts.

6.3 Each business unit shall develop and maintain written procedures, however; each department is expected to abide by this policy.

6.4 Collection of revenue owed to the City is a core responsibility of each business unit and shall use its best efforts to service and collect such Accounts Receivable.

9.5 All departments are responsible for collecting on amounts invoiced and identifying staff assigned with these duties.

There is no authoritative guidance that mandates the inclusion of the Accounts Receivable procedure within the policy.

As per the Government Finance Officers Association: "When developing policies, it is important to avoid comingling policy with procedure. Failure to do so can make the strategic intent of the policy less clear and may dilute the force of organization's commitment to the underlying principles or goal of the policy." Kavanagh S.C. (2012). *Financial Policies*. Chicago, IL. Government Finance Officers Association. Pg 12.

Responsible Party

Implementation Date

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

Chief Internal Auditor's Response

The Chief Internal Auditor has reviewed the comments received from the Office of the Comptroller and disagrees with the comments submitted. The comment stating that Finding 2 is not a finding is not a decision for the Office of the Comptroller to make. This decision is the responsibility of the Chief Internal Auditor. In addition, the Chief Internal Auditor is concerned with the level of risks involved with the collection of the Accounts Receivable Balances for the City of El Paso. With a balance of over \$145 Million in Accounts Receivable as of August 31, 2021, it is extremely important to develop an effective collection program for the City of El Paso's Accounts Receivable.

The situations identified in this Audit Report were not created by the current City Comptroller. The situations identified in this Audit Report are the result of many years of neglect in the area of Accounts Receivable.

During conversations with the City's Comptroller while conducting this audit, she informed the Chief Internal Auditor her staff was working on a new Procedures Manual. Finding 2 was written with the intention of assisting the Office of the Comptroller in developing their new Procedures Manual, especially in the area of collections. Because of a lack of written Accounts Receivable Collection procedures, City Staff has to rely on the current Accounts Receivable Policy. We are unsure why no mention is made regarding this new Procedures Manual in her comments. A new Procedures Manual could have a huge impact on the collection of the City of El Paso's Accounts Receivable.

As required by Federal Generally Accepted Government Auditing Standards 9.52 and the International Standards for the Professional Practice of Internal Auditing Standard 2600 which the Internal Audit Office follows, the Chief Internal Auditor has determined:

1. The Chief Internal Auditor and the Office of the Comptroller cannot come to an agreement on Finding 2.
2. The Office of the Comptroller will assume the associated risks with the Accounts Receivable Program for the City of El Paso.
3. An inquiry will be made in 6 months with the Office of the Comptroller to determine if any corrective action has occurred within the Accounts Receivable Program.

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

Finding 3

Accounts Receivable Billing Variances

City of El Paso Strategic Plan:

- Goal 6.3 *Implement programs to reduce organizational risk.*
- Goal 6.6 *Ensure continued financial stability and accountability through sound financial management, budgeting and reporting.*
- Goal 6.12 *Maintain systems integrity, compliance and business continuity.*

City of El Paso Accounts Receivable Policy dated September 2020:

- Section 3.0 Goals and Objectives:
 - *Maintain a current and active customer database to ensure invoices and notices are addressed to the appropriate responsible party.*
 - *Ensure all billings for services and other billable activities are recorded and tracked for financial reporting purposes.*
 - *Reconcile on a monthly basis the Accounts Receivable Subsidiary Ledger to the General Ledger.*
- Section 7.2 Origination of an Accounts Receivable:
 - d. *All invoices generated must be in the mail to the customer within 30 days of the date of service.*
- Section 9.6 General Policy:
 - d. *The Comptroller will receive the Accounts Receivable report once a month.*
 - e. *Office of the Comptroller will follow up with the business units to inquire about the status of outstanding bills on the aging report over 60.*

Our review identified six (6) out of seven (7) departments (85.72%) are not following the *City of El Paso Accounts Receivable Policy* dated September 2020 for the recording, invoicing, posting, and reconciliation of receivables:

Recording

- Three (3) out of seven (7) departments (42.86%) do not consistently record and track all their billable activities in the PeopleSoft Accounts Receivable Module. Departments use different procedures to bill customers:

Sun Metro	Does not use Accounts Receivable Module to bill Union Depot Facility Rentals or Bus Bench Advertisements. The only record available of the transactions is when the department processes a customer payment for Union Depot Rentals or Bus Bench Advertisements.
Parks and Recreation Dept.	Does not record billable activities in Accounts Receivable Module or in PerfectMind Recreation Management Software. Invoices are created using Microsoft Word. The only record available of the transactions is when customer payments are processed. Department does not maintain an Accounts Receivable Aging Schedule.
Streets & Maintenance (SAM) Dept.	<ul style="list-style-type: none"> • Accounts Receivable Module is used for invoicing utility companies and contractors for reimbursement of expenses for street resurfacing projects, repavement, and staff overtime. • SAM requests reimbursements from citizens for damages to City property through a Demand Letter. SAM does not maintain a listing of amounts due from the mailed-out Demand Letters.

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

- SAM has not invoiced citizens for property damages through the Accounts Receivable Module since Fiscal Year 2013, but continued to request reimbursement via Demand Letters. Currently, SAM is not billing citizens for all damages to City property via Demand Letters. As a result, revenue received from the reimbursement of damages to City property has declined by approximately \$565,218.00 since FY2014.
- In FY2014, the last year property damages were invoiced, SAM received \$666,872.00 from reimbursements. In FY2021, SAM received \$101,654.00.

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021
Revenue Collected	\$ 666,872	\$ 495,706	\$ 393,090	\$ 411,015	\$ 292,837	\$ 204,250	\$ 107,195	\$ 101,654

Invoicing

- Two (2) out of seven (7) departments (28.58%) are not invoicing customers within 30 days from the date of service as required by *City of El Paso Accounts Receivable Policy*:

Streets & Maintenance (SAM) Dept.	Eight (8) out of nine (9) invoices (88.9%) reviewed were not invoiced within 30 days. Invoices were sent out 33 to 281 days after date of service.
Office of the Comptroller (OTC)	Three (3) out of nine (9) invoices (33.34%) reviewed were not invoiced within 30 days. Invoices were sent out 44 to 883 after the date of service. These invoices were created by OTC on behalf of City Departments. The Departments did not request the invoice to be created within 30 days.

Posting

- One (1) out seven (7) departments (14.29%) had a payment for a receivable posted to an incorrect account. A lease payment from Texas Tech in the amount of \$3,407.53 was incorrectly posted to a Fire Department Income Account instead of Sun Metro’s Accounts Receivable Account. Since Sun Metro did not receive the payment, the receivable became delinquent and was allocated to the Allowance for Doubtful Accounts.

Reconciliation

- Five (5) out of seven (7) departments (71.43%) reviewed (OTC, El Paso Zoo, Parks & Recreation, Environmental Services, Sun Metro) conduct monthly Accounts Receivable reconciliations. Environmental Services is the only department that provides a monthly Accounts Receivable report to OTC.

Recommendation

The Office of the Comptroller should ensure all City Departments:

- Record and track all billable activities in the PeopleSoft Accounts Receivable Module.
- Invoice customers within 30 days of the date of service or submit a request for OTC to invoice on behalf of the department within 30 days.
- Inform OTC when a payment is posted to an incorrect account. So, corrections can be made to apply the payment to the correct account.
- Conduct monthly Accounts Receivable reconciliations and submit them to OTC for review.

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

Management's Response

Office of the Comptroller does not consider finding number Three to be a finding. As per responses below, the specific points in the audit report do not demonstrate any violation of policy or any internal control breakdown. We do agree that the audit department has great recommendations for improvements and appreciate their comments.

Our review identified six (6) out of seven (7) departments (85.72%) are not following the *City of El Paso Accounts Receivable Policy* dated September 2020 for the recording, invoicing, posting, and reconciliation of receivables:

Recording

Three (3) out of seven (7) departments (42.86%) do not consistently record and track all their billable activities in the PeopleSoft Accounts Receivable Module. Departments use different procedures to bill customers.

1. The policy does not identify PeopleSoft as the only mandated option to track billable activities. Office of the Comptroller requested the Internal Audit department to identify where in the policy it specifies that all billing of accounts receivable must occur in PeopleSoft and the response received did not answer the question. Section 2 and 3 of the policy were referenced in the response but again, in none of those sections the policy establishes that customers invoices are to be billed through PeopleSoft only. Please see question 3a in the Comptroller's Request for Information attached.
2. Office of the Comptroller requested the Internal Audit Department to identify where in the policy procedures have been specified and that the procedures must be similar or identical. Internal audit response did not identify this requirement in the policy. Please see question 3b in the Comptroller's Request for Information attached.
3. As per Audit Report pg 12: "Currently, SAM is not billing citizens for all damages to City property via Demand Letters. As a result, revenue received from the reimbursement of damages to City property has declined by approximately \$565,218.00 since FY2014." Office of the Comptroller has requested Internal Audit to provide a list of damages that were not billed during FY14 and FY21 to help us understand this decline in revenue. According to the response attached in 3.c. SAM does not have a list of amounts due which indicates that the decline in revenue being caused by not billing through the AR module is an assumption and not a fact.

Invoicing

Two (2) out of seven (7) departments (28.58%) are not invoicing customers within 30 days from the date of service as required by *City of El Paso Accounts Receivable Policy*.

Office of the Comptroller requested Internal Audit to provide a list of all invoices not prepared within 30 days and the reasons provided by the department to justify the delay. According to the response, a total of 54 invoices were selected for review and only 9 invoices were selected from six departments aging schedules. The City processes over 10,000 billings annually. A sample test of 54 invoices equates to **less than 1%** and hence it is not representative of the population. Also, Internal Audit responded that the invoices were judgmentally selected and not randomly selected. Internal Audit did not respond to the request to provide Office of the Comptroller the total number of invoices for the time period audited, and whether or not the sample size was extended based on the findings. See attached.

Posting

- One (1) out seven (7) departments (14.29%) had a payment for a receivable posted to an incorrect account. A lease payment from Texas Tech in the amount of \$3,407.53 was incorrectly posted to a

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

Fire Department Income Account instead of Sun Metro's Accounts Receivable Account. Since Sun Metro did not receive the payment, the receivable became delinquent and was allocated to the Allowance for Doubtful Accounts.

Office of the Comptroller requested Internal Audit to provide a list of all payments that were found posted incorrectly. As per Internal Audit department **only one payment** was posted incorrectly. See response attached.

Reconciliation

- Five (5) out of seven (7) departments (71.43%) reviewed (OTC, El Paso Zoo, Parks & Recreation, Environmental Services, Sun Metro) conduct monthly Accounts Receivable reconciliations. Environmental Services is the only department that provides a monthly Accounts Receivable report to OTC.

- The policy does not specify that departments are mandated to submit reconciliations to OTC in a monthly basis. Per section 12.6 of the AR policy "Independent parties are to reconcile the bank deposits to the general ledger activity, customer's account, and receipts."pg. 10. This alludes to an internal control of not having the same person that created the billing, record the deposit and/or reconcile accounts receivable. There is an objective to have a monthly reconciliation of AR subsidiary ledger to general ledger which is currently being done by OTC.

Responsible Party

Implementation Date

City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04

Chief Internal Auditor's Response

The Chief Internal Auditor has reviewed the comments received from the Office of the Comptroller and disagrees with the comments submitted. The comment stating that Finding 3 is not a finding is not a decision for the Office of the Comptroller to make. This decision is the responsibility of the Chief Internal Auditor. In addition, the Chief Internal Auditor is concerned with the level of risks involved with the management of the Accounts Receivable Balances for the City of El Paso. With a balance of over \$145 Million in Accounts Receivable as of August 31, 2021, it is extremely important to develop a strong management program for the City of El Paso's Accounts Receivable.

The information presented in Finding 3 is intended to demonstrate to the Office of the Comptroller specific examples of issues identified during the audit. City Departments are using their own interpretation of the Accounts Receivable Policy to manage their Accounts Receivable. This interpretation has caused different procedures to be practiced by the 7 City Departments analyzed.

Because of a lack of written procedures, City Departments have to rely on the current Accounts Receivable Policy for direction. As mentioned in the Chief Internal Auditor's Response in Finding 2, we are unsure why the City Comptroller has made no mention of her current project to create a new Accounts Receivable Procedures Manual. This new Procedure Manual would be of great assistance to the City Departments handling Accounts Receivables.

The Chief Internal Auditor is concerned with the comments submitted by the Office of the Comptroller regarding the Audit Methodology used in the completion of this audit. The Audit Methodology used in the completion of this audit are nationally recognized auditing techniques. It is unclear to the Chief Internal Auditor why the Office of the Comptroller would question the Audit Methodology.

As required by Federal Generally Accepted Government Auditing Standard 9.52 and the International Standards for the Professional Practice of Internal Auditing Standard 2600 which the Internal Audit Office follows, the Chief Internal Auditor has determined:

1. The Chief Internal Auditor and the Office of the Comptroller cannot come to an agreement on Finding 3.
2. The Office of the Comptroller will assume the associated risks with the Accounts Receivable Program for the City of El Paso.
3. An inquiry will be made in 6 months with the Office of the Comptroller to determine if any corrective action has occurred.

**City of El Paso
Internal Audit Office
Accounts Receivable Program Audit A2022-04**

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods beyond the Audit Report date are subject to the risk that procedures may become inadequate due to changes in conditions, management override of internal controls, or that the degree of compliance with the procedures may deteriorate. This was a limited scope audit which only reviewed the areas stated in the Audit Objectives during the Audit Scope period. No representations of assurance are made to other areas or periods not covered by this audit.

CONCLUSION

We have concluded our work on the objectives of the Accounts Receivable Program Audit. The audit evidence used in the analysis is sufficient and appropriate for addressing the objectives and supporting the findings and conclusion. In accordance with *Generally Accepted Government Auditing Standards*, we are required to conclude whether the Office of the Comptroller (OTC) met the objectives of this audit. Based on our audit work, we have determined that:

1. The Office of the Comptroller met the audit objectives in the following areas:
 - Establishing an Accounts Receivable Policy.
 - Identifying and establishing business units within the Accounts Receivable Billing Module in PeopleSoft Financials.
 - Establishing a reconciliation and reporting process where the *Annual Comprehensive Financial Report* includes the amounts recorded in the Accounts Receivable Billing Module.
2. The Office of the Comptroller did not meet the audit objectives in the area of:
 - Updating the *City of El Paso Accounts Receivable Policy* to provide specific billing guidance to City Departments.
 - Updating the *City of El Paso Accounts Receivable Policy* to incorporate guidance for the collection and account management of past-due accounts.
 - Ensuring City Departments follow the *City of El Paso Accounts Receivable Policy* dated September 2020 for the recording, invoicing, posting, and reconciliation of receivables.

We wish to thank the Office of the Comptroller management and staff for their assistance and courtesies extended during the completion of this audit.

Signature on File

Edmundo S. Calderón, CIA, CGAP, CRMA, MBA
Chief Internal Auditor

Signature on File

Liz De La O, CFE, CIA, CGAP, MPA
Auditor IV

Signature on File

Miguel Montiel, CIA, CGAP
Audit Manager

Distribution:

Financial Oversight and Audit Committee
Tomas Gonzalez, City Manager
Robert Cortinas, Deputy City Manager of Support Services & Chief Financial Officer
Margarita Munoz, Comptroller