
CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Finance Department

Accounts Receivable

Project No. AU21-013

July 27, 2023

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Finance Department, specifically Accounts Receivables. The audit objectives, conclusions, and recommendations follow:

Determine if Accounts Receivable are properly reported and managed including collections and bad debt allowances.

Accounts Receivable are not properly managed including collections and bad debt allowances. Finance and City Departments do have effective procedures that ensure recording of manual journal entries are accurate and supported. In addition, controls are in place that ensure requests for refunds are properly authorized and adequately supported.

However, we observed opportunities which include an overall lack of documentation support for the creation and modification of customer accounts. In addition, we identified lack of documentation support for the City's customer account receivable collection efforts. City departments use inconsistent methodology for the estimation of allowance for doubtful accounts compared to the City's administrative directive. Finally, SAP user access to accounts receivable transaction was excessive.

Finance Department Management agreed with the audit findings and has developed positive action plans to address them. Management's verbatim response is in Appendix B on page 7.

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Background

The Billings and Accounts Receivable Section of the Finance Department is responsible for the oversight and management of the billing and collection process related to accounts receivable. An account receivable is money owed to the City by customers who purchased goods or receive services in advance of payment. Administrative Directive 8.4 Financial Management of Accounts Receivable outlines citywide guidelines and related internal controls for management of accounts receivable and collection of City revenue.

The City of San Antonio's primary system of record for financial reporting is SAP. The City's goal is to maintain one centrally managed account receivable system and master customer database. The Finance Department is responsible for maintaining the SAP customer master records database, process request for additions, deletions, and changes to the customer master database. SAP is used to maintain customer information, create sales orders, change/display sales orders, create billing documents and review customer aging.

The collection process is a collaborative effort by City departments and the Finance Department. City departments collection efforts include phone calls and/or dunning letters on delinquent customers at 30, 60, and 90 days past due. Complete documentation of good faith efforts to collect monies due to the City is necessary and should be maintained at the department location.

An allowance for doubtful accounts is maintained. The allowance for doubtful accounts is the portion of accounts receivable estimated to be uncollectible based on aging and other factors. When all attempts for collections have been executed and the determination is made that an account is uncollectible, the account receivable will be moved to a write-off general ledger account.

Audit Scope and Methodology

The audit scope was Fiscal Year 2021.

We interviewed Finance Department staff to obtain an understanding of the account receivable process. We also reviewed policies and procedures governing these processes. Testing criteria primarily included City Administrative Directives, and the SAP User Guide for Customer Master Maintenance.

Our testing included a review of a sample of customer accounts for appropriate creation and modifications. We reviewed a sample of manual journal entries to determine if they were appropriately supported, accurate and performed timely. We also reviewed a sample of account receivable aging accounts for required collection efforts and documentation support. We reviewed the methodology for establishing the allowance for doubtful account receivables. Finally, we tested a sample of write-offs to determine if departments followed city requirements.

We relied on computer-processed data in SAP, the City's accounting system. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included using SAP to obtain account receivable, aging of account receivable and write-off balances. We also reviewed SAP user access roles for appropriateness. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

Audit Results and Recommendations

Finance and City Departments have effective procedures that ensure manual journal entries used to transfer financial information to SAP are processed appropriately. We reviewed a sample of 51 manual journal entries totaling approximately \$610,500 and determined they were accurate, adequately supported and recorded timely. In addition, we reviewed 20 refund requests totaling \$152,833 and determined they were properly authorized and supported.

A. Customer Master File Support

Finance and City Departments did not retain support documentation for the creation and modification of customer accounts. We reviewed a sample of 60 customer accounts for required documentation support. We determined that 9 out of the 60 customer accounts did not have a customer master maintenance request form or other documentation which supports creation. We also reviewed a sample of 34 customer modifications and determined 32 did not have the proper documentation support.

The SAP User Guide for Customer Master Maintenance provides information regarding the document support used for the creation and modification of customer accounts. In addition, City Administrative Directive 8.4 Financial Management of Accounts Receivable states that the Finance department is to maintain the SAP customer master records database.

City Departments are not following the SAP User Guide for Customer Master Maintenance as intended for the creation and modification of customer accounts. Not adhering to the required procedures for the creation and modification of customer accounts may lead to incomplete and inaccurate data, which may have an adverse effect on the city's collection efforts.

Recommendation

The Deputy Chief Financial Officer ensure City Departments are adhering to existing requirements for the execution and retention of document support for the creation and modification of customer accounts.

B. Monitoring of Past Due Customer Accounts

City Departments do not maintain documentation support of their customer account collection efforts. We reviewed a sample of 32 past due customer accounts and determined 20 did not have documentation support of collection

efforts, such as past due notices, late fees, and dunning letters. City Departments are not working on past due customer accounts on a timely basis. We reviewed the Aging of Accounts Receivable Reports, which Finance provides to departments for September 2021 and February 2022 and identified 22 customer accounts that remained outstanding for at least 5 months.

Per AD 8.4, the department is required to periodically, but at least monthly, monitor the activity of the account receivable reports, including the fund 99, no fund, and aging of accounts receivable, to ensure that departments are processing the corrections necessary for proper fund financial reporting. The AD also requires collections efforts at 30 days past due, 60 days past due, and a final notice at 90 days past due.

The departments are not following existing procedures for the monitoring of customer collection efforts. In addition, Finance does not have effective controls to ensure departments are adhering to the City's account receivable collection process. Not adhering to the City's customer account receivable collection process may result in lost revenue.

Recommendation

The Deputy Chief Financial Officer ensure existing procedures are followed for the monitoring of customer collection efforts. In addition, establish effective controls to ensure departments are adhering to the City's account receivable collection process.

C. Allowances

We observed inconsistent methodology for estimating the allowance for doubtful accounts. We observed 1 city department and Finance use a historical methodology to calculate their allowance for doubtful accounts. However, the current Administrative Directive indicates the used of fixed percentages to calculate allowance.

The current Administrative Directive that provides the allowance methodology has not been revised since 2010.

Outdated policies and procedures may result in inaccurate write-off amounts.

Recommendation

Deputy Chief Financial Officer review and potentially revise the administrative directive related to the methodology used to estimate the allowance for doubtful accounts to reflect the most appropriate methodology.

D. User Access

User access is not appropriate for users with access to create customers, billing, and payment posting roles. We reviewed user access and determined 32 of the 197 (16%) employee access rights reviewed had inappropriate access based on job position determined by the Finance department.

City AD 7.8d Access Control states access is based on an individual's membership in a group, job function, and/or role in their assigned City department with permissions and it should be limited based on the principle of least privilege.

Finance did not perform periodic user access reviews to determine access was appropriate based on job position. Lack of periodic user access reviews may lead to the misuse of city information and potential financial losses. During the audit, City departments corrected the employees' access rights.

Recommendation

The Deputy Chief Financial Officer ensure periodic user access reviews are performed at least annually.

Appendix A – Staff Acknowledgement

Buddy Vargas, CPA, CIA, CFE, Audit Manager
Yadira Valenzuela, Auditor in Charge
Judith Flores, CPA, Auditor
Loretta Faxlanger, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

July 19, 2023

Kevin W. Barthold, CPA, CIA, CISA
 City Auditor
 San Antonio, Texas

RE: Management's Corrective Action Plan for Audit of Finance Accounts Receivable

The Finance Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
A	<p>Customer Master File Support</p> <p>The Deputy Chief Financial Officer ensure City Departments are adhering to existing requirements for the execution and retention of document support for the creation and modification of customer accounts.</p>	3	Accept	Veronica Carrillo, Assistant Finance Director	January 2024

Action plan:

Finance agrees with the recommendation regarding Customer master data. Customer Master Records are created and revised through three processes: 1) manual actions on individual customer records undertaken by Central Finance; 2) manual mass uploads processed by Central Finance on behalf of departments; and 3) automated actions via integration and interfaces between SAP and third-party systems, such as Accela. The Financial Operations Division is responsible for the first two processes. The departments that utilize third party interfaces are responsible for the third process, in collaboration with ITSD.

Due to multiple points of contact needed to obtain the supporting documentation to respond to the audit, Finance should have done a better job of coordinating within itself and City departments to obtain the requested documentation in a complete and timely manner in response to the Office of City Auditor's audit request. Based on our assessment of the 41 records identified in the audit, we have supporting documentation available for the majority of these findings. However, that information was not gathered or provided to the auditors within the timeframe of the audit period. Of the 41 records:

A

- 4 were updates to individual records by Central Finance for which supporting documents have since been identified
- 1 was a manual update by Central Finance to multiple records requested by SAFD, for which supporting documents have since been identified
- 1 was a mass upload for SAFD to change Accounting Clerk, Account Statement (invoice) frequency, and shipping terms on multiple records. Supporting documents have since been identified
- 13 were for records automatically created by the VAPORS application used by the Office of Historic Preservation. Finance will document the process for VAPORS and other systems that automatically create and revise Customer Records and will include the information in the Customer Record Processes & Procedures document
- 17 were SWMD mass uploads for which supporting documents have since been identified. We had provided an example of a SWMD mass upload during the audit research phase. These mass uploads are processed daily. This creation of customer records allows SWMD to facilitate the payment process and delivery of off-cycle services, such as extra bin pick-ups.
- 3 were for records affected by "dunning" [collection effort] processes undertaken by SAFD. City processes require that departments perform up to three dunning notification attempts to collect on a debt before placing a reserve for the inability to collect on the balance owed. Through the dunning process, the associated customer record within SAP is automatically updated to notate the submission of a dunning statement. This master data update is logged on the customer record but does not affect or adjust any other data on the record. We since provided screens shots of these 3 records' histories that notate the dunning activity.
- 1 was for a time zone-related issue. This action is an anomaly. Financial Operations does not typically change Time Zones. No other changes were made to this record. A copy of the record history has since been provided.
- 1 was for changes made by ITSD to correct a system error. SAP experienced a bug in April 2021 that assigned the same address to numerous Customer Records. ITSD resolved the issue

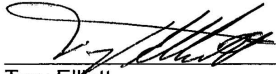
Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>and corrected the addresses on April 24, 2021. Supporting documents, including an explanation email from ITSD and spreadsheet of all records affected by the system bug, have since been provided.</p> <p>Finance recognizes that all customer records should be fully documented, regardless of the process. We will work on strengthening current documentation requirements for all Customer Master Records, to include what supporting documents or data are required to be maintained by Central Finance as well as those by departments or held within third-party systems. We will further organize the supporting documentation and departmental points of contact so that this information is more accessible. These requirements will be incorporated into the Customer Master Record Processes & Procedures (P&P). Financial Operations will communicate and train on the P&P once it has been completed.</p>				
B	<p>Monitoring of Past Due Customer Accounts</p> <p>The Deputy Chief Financial Officer ensure existing procedures are followed for the monitoring of customer collection efforts. In addition, establish effective controls to ensure departments are adhering to the City's account receivable collection process.</p>	3	Accept	Melanie Keeton, Assistant Finance Director	June 2023

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action plan:</p> <p>The monitoring of customer balances for collections is a collaborative effort by the fiscal operations within City Departments and Central Finance. The Finance Department's Controller's Office has the role of providing oversight and administration of Administrative Directive (AD) 8.4 Financial Management of Accounts Receivable. The Controller's Office is in the process of updating this Administrative Directive which will require that each department create their own policies and procedures to adapt to their customer operations and fiscal resources, while ensuring compliance of the standard requirements associated with collections efforts to include dunning procedures, required documentation, and potential creation of full allowances against outstanding receivable balances after collection efforts have failed.</p> <p>The Controller's Office temporarily placed the monthly receivable review meetings on hold in fiscal years 2020 through 2022 due to City staff absences and vacancies; and shift in departments' focus during COVID to allow resources to work towards the City's response to and recovery from the pandemic emergency. Finance re-instituted the monthly departmental meetings in June 2023, reviewing the aging customer balances and obtaining an update on department issues, concerns related to collection efforts, and/or action items needed to assist in collecting outstanding balances. The Controller's Office will additionally ensure that all full allowance reserve [bad debt] requests that are submitted from departments are approved by their director or designee and include the dunning documentation. Furthermore, Finance will resume technical assistance and training to City departments regarding the management of accounts receivable collections.</p>				
C	<p>Allowances</p> <p>Deputy Chief Financial Officer review and potentially revise the administrative directive related to the methodology used to estimate the allowance for doubtful accounts to reflect the most appropriate methodology.</p>	4	Accept	Melanie Keeton, Assistant Finance Director	September 2023

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action plan:</p> <p>At the time the AD was created, the City did not have the records to develop an allowance for doubtful accounts, which is required under generally accepted accounting principles and required to be audited under the Statement on Auditing Standards (SAS) No. 57 – Auditing Accounting Estimates. These standards and related best practices recommend that the allowance be calculated using historical collections by customer/receivable type, aging, and other entity/economic factors. As a result, in order to document and follow some method, the City's AD required the usage of set "fixed" percentages as a basis while historical data was being generated.</p> <p>As the City's operations continued to develop in SAP, data was generated and able to be extracted to provide the necessary historical information to alter our allowance methodology, enabling us to comply with best practices. The Finance Department altered its allowance methodology in 2012 to follow these practices. Finance agrees with the recommendation to update Administrative Directive 8.4 Financial Management of Accounts Receivable to reflect the methodology we have been following for the past 10 years.</p>				
D	<p>User Access</p> <p>The Deputy Chief Financial Officer ensure periodic user access reviews are performed at least annually.</p>	5	Accept	Melanie Keeton, Assistant Finance Director	Completed
	<p>Action plan:</p> <p>Semi-annual user access role reviews were temporarily placed on hold in fiscal years 2020 and 2021 due to City staff absences and vacancies; and shift in departments' focus during COVID to allow resources to work towards the City's response to and recovery from the pandemic emergency. Finance re-instituted the mandatory semi-annual user access role reviews in 2022. The Department Fiscal Administrators (DFAs), working alongside Compliance and Resolution, validated access roles for staff within their servicing departments and identifying those users who needed to have their roles adjusted due to their current work assignments. All users with excessive access privileges noted in the report at the time of this audit have been delimitated.</p> <p>Going forward, in addition to the semi-annual user role reviews performed by the DFAs, Central Finance will perform an annual review on user access permissions specifically for receivables, to ensure the proper individuals have the appropriate roles and assignments in SAP.</p>				


We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



Troy Elliott
Deputy Chief Financial Officer
Finance Department

7/18/2023
Date



Ben Gorzell, Jr.
Chief Financial Officer
City Manager's Office

7/19/2023
Date