



A Report to the Galveston
City Council

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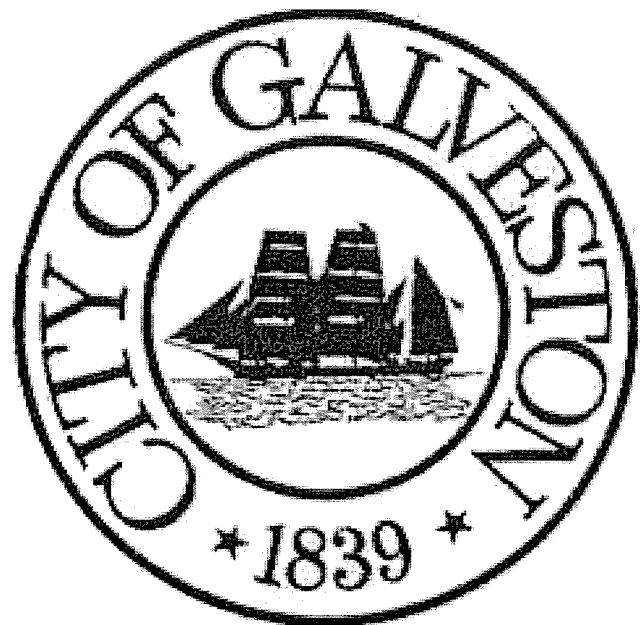
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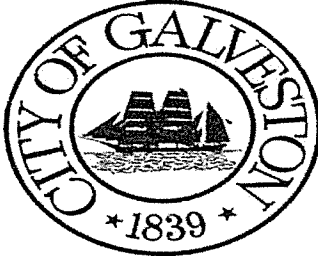
Audit Report
AU2015-3

Accounts Receivable Audit Report



Report Summary

The City Auditor Department evaluated the design and operating effectiveness of the internal controls over Accounts Receivable compliance as described in Appendix 1 – Control Activities Checklist – Governmental Funds and Appendix 2 – Accounting Controls Checklist – Enterprise Funds. Also noted in the two appendices were internal controls in which opportunities may exist for the improvement of transparency, documentation, and timeliness over accounts receivable compliance. The City Auditor Department has no findings to report in this audit and will make itself available to consult with the Finance Department should management choose to act upon improving any internal controls for enhanced transparency, documentation, and timeliness over accounts receivable compliance.



ACCOUNTS RECEIVABLE AUDIT- FINANCE DEPARTMENT
CITY AUDITOR

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AUDIT TEAM

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November 12, 2015

Background

The City of Galveston is a governmental entity that is charged with enforcing compliance requirements such as a) eligibility and purpose requirements for intergovernmental grants and private donations b) legal limits on the ability to tax citizens c) budgetary processes d) restrictions that limit spending authority e) requirements to obtain voter approval to issue debt and levy taxes to repay the debt f) voter approval to increase tax rates and the restrictions on the use of additional taxes and g) special assessments. Therefore, it is imperative that the Finance Department is charged with establishing the internal control policies and procedures for accounts receivables within the City of Galveston. In turn, the City Auditor Department is responsible for evaluating the design and operating effectiveness of those internal controls.

Objective

The objective of this report is to evaluate the design and operating effectiveness of the Finance Department's internal control framework over accounts receivable relating to (1) *a financial reporting framework* for accounts receivable and (2) *an applicable reporting framework* for accounts receivable. These objectives are further described below as:

(1)Applicable Reporting Framework - The objectives of internal controls over accounts receivable for an applicable reporting network are to ensure a complete set of principles for the requirements, laws, and regulations that a municipal government is subject to.

(2)Financial Reporting Framework - The objectives of internal controls over accounts receivable for a financial reporting network are to ensure a comprehensive set of standards for determining measurement, recognition, presentation, and disclosure.

Scope

To evaluate the design and operating effectiveness of the two objectives of internal controls over accounts receivables identified and then to evaluate the basic components of each objective for the City of Galveston are described in the supplemental appendices and below:

(1)Applicable Reporting Network

- a) Control Environment - The City of Galveston's control environment establishes the tone of an organization that influences the control consciousness of its personnel.
- b) Risk Assessment - Risk assessment is the City of Galveston's identification and analysis of relevant risks to achieving the organization's objectives.

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- c) Control Activities – The City of Galveston’s control activities are the policies and procedures that are performed by personnel that help ensure that management’s directives regarding compliance are carried out.
- d) Information and Communication - The information and communication component includes the City of Galveston’s identification, capture, and exchange of information in a form and time frame that enable personnel to carry out their responsibilities.
- e) Monitoring Activities - Monitoring activities assess the City of Galveston’s quality of internal control performance over time.
- f) Defining the financial reporting process for the City of Galveston.
- g) Capturing and processing information for the City of Galveston.

(2)Financial Reporting Network

- a) Rights and Obligations – All account receivable balances properly reflect amounts collected or should have been collected by the City of Galveston.
- b) Valuation and Allocation – All account receivable balances properly value and allocate amounts that individuals or agencies paid to the City of Galveston.
- c) Occurrence – All account receivable balances represent amounts uncollected by the City of Galveston.
- d) Completeness – All account receivables have been captured by the City of Galveston.
- e) Accuracy – All account receivables have been accurately recorded by the City of Galveston.
- f) Cut-off – All account receivable balances are recorded by the City of Galveston in the correct accounting period.
- g) Classification – All account receivable balances are correctly classified by the City of Galveston.

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Fieldwork Performed

The City Auditor Department researched all known internal controls for accounts receivable within a local municipality and listed each internal control in two separate spreadsheets described and attached as Appendix 1 – Accounts Receivable Control Activities Checklist – Governmental Funds and Appendix 2 – Accounts Receivable Control Activities Checklist – Enterprise Funds. Each internal control listed in Appendix 1 and Appendix 2 was then evaluated to determine if the control design and operations of the control proved to be effective in an applicable reporting framework or a financial reporting framework for accounts receivables at the City of Galveston. The City Auditor Department also noted if opportunities exist for the improvement of those internal controls.

Audit Findings

There are no findings for the City Auditor to report to The Mayor and The City Council for The City of Galveston. The City Auditor Department will make itself available to consult with the Finance Department should management choose to act upon improving internal controls for accounts receivable compliance at the City of Galveston.

Staff Conduct

All staff acted in a professional and timely manner.

City Manager's Response

The Manager has reviewed the Report and has no questions.

Appendix 1: Accounts Receivable Control Activities Checklist - Governmental Funds: Finance Department	Internal Control is Implemented and Effective	Documentation Could be Improved
Processing and Managing Billings Revenues		
1. Management reviews the billing reports and accounts receivable reports on a periodic basis and investigates significant variances from budgets and expected results.	X	
2. The City of Galveston has established procedures to ensure that all reimbursable costs or contract costs are billed (as assessments, fees, etc.) and adherence to those procedures is periodically reviewed by the appropriate level of management or another appropriate person.	X	
3. The City of Galveston prohibits loans to employees and City Council members.	X	
4. Bills, assessments, permits, license renewals, etc., are agreed to authorized and/or approved amounts before recording.	X	
5. There is adequate segregation of duties among those who:		
a. Authorize rates, fees, fines, or assessments.	X	
b. Prepare bills, notices, permit renewals, etc.	X	
c. Collect accounts receivable.	X	
d. Post cash receipts to accounts receivable subledger.	X	
e. Review accounts receivable aging trial balance.	X	
f. Authorize write-offs of delinquent accounts.	X	
g. Independently investigate accounts receivable discrepancies.	X	
h. Maintain or authorize accounts receivable adjustments.	X	
i. Edit the accounts receivable master file.	X	
j. Process citizen service calls and complaints.	X	
k. Investigate discrepancies or issues related to revenue.	X	

Appendix 1: Accounts Receivable Control Activities Checklist - Governmental Funds: Finance Department	Internal Control is Implemented and Effective	Documentation Could be Improved
6. Bills, assessments, permits, license renewals, fines, etc., are prenumbered and the sequence is accounted for.	X	
7. Summary totals (for example, batch totals) of billings are prepared and compared to the posting to the control accounts.	X	X
8. Penalties and interest are agreed to authorized and/or approved amounts before recording.	X	
9. Abatement, cancellation, and refund policies (including legal requirements) are adhered to.	X	
10. Delinquent receivables and credit balances are reviewed.	X	X
11. The receivables aging/subledger is reviewed and reconciled to the general ledger.	X	
12. Revenues by revenue source and/or governmental activity are reviewed regularly by management.	X	
13. Receivables from miscellaneous activities are periodically reviewed and significant amounts are reported to the City Manager.	X	

Appendix 1: Accounts Receivable Control Activities Checklist - Governmental Funds: Finance Department	Internal Control is Implemented and Effective	Documentation Could be Improved
Processing Billing Adjustments		
14. Management reviews the entity's billing adjustments reports on a periodic basis and investigates significant variances from budgets and expected results.	X	
15. Abatement, cancellation, and refund policies (including legal requirements) are adhered to.	X	
16. All write-offs, adjustments, and abatements greater than amounts specified by the government's policies are approved.	X	
17. Delinquent receivables are reviewed.	X	X
18. There is adequate segregation of duties among those who:		
a. Authorize rates, fees, fines, or assessments.	X	
b. Authorize write-offs of delinquent accounts.	X	
c. Maintain or authorize accounts receivable adjustments.	X	
d. Edit the receivables master file.	X	
e. Open the mail or copy checks received.	X	
f. Maintain access to cash.	X	

Appendix 1: Accounts Receivable Control Activities Checklist - Governmental Funds: Finance Department	Internal Control is Implemented and Effective	Documentation Could be Improved
Processing Cash Receipts		
19. Management reviews the cash receipts reports on a periodic basis and investigates significant variances from budgets and expected results.	X	
20. Delinquent receivables and credit balances are reviewed.	X	X
21. Cash receipts are reconciled to general ledger postings daily.	X	
22. The receivables aging/subledger is reviewed and reconciled to the general ledger.	X	
23. There is adequate segregation of duties among those who:	X	
a. Collect accounts receivable.	X	
b. Open the mail or copy checks received.	X	
c. Prepare deposits.	X	
d. Deposit cash receipts.	X	
e. Post cash receipts to the receivables subledger.	X	
f. Review the receivables aging trial balance.	X	
g. Authorize write-offs of delinquent accounts.	X	
h. Independently investigate receivables discrepancies.	X	
i. Maintain or authorize receivables adjustments.	X	
j. Edit the receivables master file.	X	
k. Process customer service calls and complaints.	X	
l. Investigate discrepancies or issues related to revenue.	X	

Appendix 1: Accounts Receivable Control Activities Checklist - Governmental Funds: Finance Department	Internal Control is Implemented and Effective	Documentation Could be Improved
24. There is adequate segregation of duties among those who:		
a. Authorize rates, fees, fines, or assessments.	X	
b. Collect accounts receivable.	X	
c. Open the mail or copy checks received.	X	
d. Prepare tax bills, assessments, permits, license renewals, notices, etc.	X	
e. Prepare deposits.	X	
f. Deposit cash receipts.	X	
g. Reconcile bank accounts.	X	
h. Investigate discrepancies or issues related to cash.	X	
i. Maintain access to cash.	X	
j. Maintain the cash receipts journal.	X	
k. Post journal entries to the general ledger.	X	
Maintaining Master Files		
25. Only authorized users can modify data in the master records.	X	

Appendix 2: Accounts Receivable Control Activities Checklist - Enterprise Fund: Finance Department	Internal Control is Implemented and Effective	Documentation Could be Improved
Processing and Managing Billings for Service and Other Revenues		
1. Management reviews the entity's billing reports and accounts receivable reports on a periodic basis and investigates significant variances from budgets and expected results.	X	
2. Service fee rates, deposits, late fees, penalties, etc., are approved by the governing body and publicly announced or published in accordance with applicable laws and regulations.	X	
3. The City has established procedures to ensure that all reimbursable costs or contract costs are billed and adherence to those procedures is periodically reviewed by the appropriate level of management.	X	
4. The City has established procedures to ensure that documents indicate that services are verified and adherence to those procedures is periodically reviewed by the appropriate level of management.	X	
5. The City of Galveston prohibits loans to employees and governing body members.	X	
6. There is adequate segregation of duties among those who:	X	
a. Approve rate schedules, usage, billing cycles, and credit policies.	X	
b. Authorize rates, late fees, or other charges.	X	
c. Prepare bills.	X	
d. Collect accounts receivable.	X	
e. Post cash receipts to accounts receivable subledger.	X	
f. Review accounts receivable aging trial balance.	X	
g. Authorize write-offs of delinquent accounts.	X	
h. Independently investigate accounts receivable discrepancies.	X	
i. Maintain or authorize accounts receivable adjustments.	X	
j. Edit the accounts receivable master file.	X	
k. Process service calls and complaints.	X	
l. Investigate discrepancies or issues related to revenue.	X	

Appendix 2: Accounts Receivable Control Activities Checklist - Enterprise Fund: Finance Department	Internal Control is Implemented and Effective	Documentation Could be Improved
7. Bills and other City forms are prenumbered and the sequence is accounted for.	X	
8. Summary totals (for example, batch totals) of billings are prepared and compared to the posting to the control accounts.	X	X
9. Credit policies are adhered to.	X	X
10. Billing records are periodically compared to service logs with follow-up of services not yet billed.	X	X
11. Delinquent accounts receivable and credit balances are reviewed.	X	X
12. The accounts receivable aging/subledger is reviewed and reconciled to the general ledger.	X	
13. Revenues by revenue source and/or governmental activity are reviewed regularly by management.	X	
14. Receivables from miscellaneous activities are periodically reviewed and significant amounts are reported to the City Manager.	X	
15. Interfund receivables and payables are balanced monthly and reconciled to the general ledger.	X	X
Processing Billing Adjustments		
16. Management reviews the billing adjustments reports on a periodic basis and investigates significant variances from budgets and expected results.	X	
17. Deposit, cancellation, and refund policies (including legal requirements) are adhered to.	X	
18. All write-offs, adjustments, and abatements greater than amounts specified by the government's policies are approved.	X	
19. Delinquent accounts receivable and credit balances are reviewed.	X	X

Appendix 2: Accounts Receivable Control Activities Checklist - Enterprise Fund: Finance Department	Internal Control is Implemented and Effective	Documentation Could be Improved
20. There is adequate segregation of duties among those who:		
a. Approve rate schedules, usage, billing cycles, and credit policies.	X	
b. Authorize write-offs of delinquent accounts.	X	
c. Maintain or authorize accounts receivable adjustments.	X	
d. Edit the accounts receivable master file.	X	
e. Open the mail or copy checks received.	X	
f. Maintain access to cash.	X	
Processing Cash Receipts		
21. Management reviews the cash receipts reports on a periodic basis and investigates significant variances from budgets and expected results.	X	
22. Delinquent accounts receivable and credit balances are reviewed.	X	X
23. Cash receipts are reconciled to general ledger postings daily.	X	
24. The accounts receivable aging/subledger is reviewed and reconciled to the general ledger.	X	
25. There is adequate segregation of duties among those who:		
a. Collect accounts receivable.	X	
b. Open the mail or copy checks received.	X	
c. Prepare deposits.	X	
d. Deposit cash receipts.	X	
e. Post cash receipts to the receivables subledger.	X	
f. Review the receivables aging trial balance.	X	
g. Authorize write-offs of delinquent accounts.	X	
h. Independently investigate receivables discrepancies	X	
i. Maintain or authorize receivables adjustments.	X	
j. Edit the receivables master file.	X	
k. Process customer service calls and complaints.	X	
l. Investigate discrepancies or issues related to revenue.	X	
26. Cash receipts are deposited intact promptly or stored in a secure location.		
27. Adjustments of cash accounts are approved and docu-	X	

Appendix 2: Accounts Receivable Control Activities Checklist - Enterprise Fund: Finance Department	Internal Control is Implemented and Effective	Documentation Could be Improved
mented by the appropriate level of management or another appropriate person.	X	
28. Cash receipts (restricted revenue) are deposited in separate bank accounts when legally or contractually required.	X	
29. There is adequate segregation of duties among those who:		
a. Approve rate schedules, usage, billing cycles, and credit policies.	X	
b. Collect accounts receivable.	X	
c. Open the mail or copy checks received.	X	
d. Prepare bills.	X	
e. Prepare deposits.	X	
f. Deposit cash receipts.	X	
g. Reconcile bank accounts.	X	
h. Investigate discrepancies or issues related to cash.	X	
i. Maintain access to cash.	X	
j. Maintain the cash receipts journal.	X	
k. Post journal entries to the general ledger	X	
Maintaining Master Files		
30. Only authorized users can modify data in the master records.	X	