


Internal Controls for Billed Receivables and User Charges

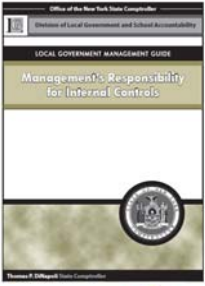
Sarah Driscoll, Auditor I
Division of Local Government and School Accountability



**NYS COMPTROLLER
THOMAS P. DiNAPOLI**

Learning Objectives


- Definition
- Responsibility
- Origins and Framework
- Billed Receivables and User Charges Controls
- Audit Findings
- Available Tools



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THOMAS P. DiNAPOLI**

Internal Controls Definition

- “A process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.”
 - Internal controls are activities or procedures designed to provide reasonable assurance that operations are “going according to plan.”



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Responsibility

- Who is responsible for implementing internal controls?
 - **Management** – Including the Governing Board.
- Who is responsible for monitoring internal control compliance?
 - **Management** – Including the Governing Board.
- Who is responsible for following internal controls?
 - **Everyone!**

Origins and Framework

- The Committee of Sponsoring Organizations (COSO) of the Treadway Commission
- Five Elements of Internal Controls
 - Control environment
 - Risk assessment
 - Control activities
 - Communication
 - Monitoring

Control Environment

- “Tone at the Top”
 - The governing board sets the proper tone for the control environment when it establishes and communicates a code of ethics, requires ethical and honest behavior from all employees, observes the same rules it expects others to follow and requires appropriate conduct from everyone in the organization.

Billed Receivables and User Charges Control Environment

- Communicating expectations for properly handling bills and delinquent accounts.
- Requiring employees to adhere to established policies and procedures.
- Performing an adequate review of reports completed by employees, including management.

Risk Assessment

- Identify those events, conditions or risks that could significantly affect the achievement of the organization's objectives.

Risk Assessment (continued)

- Opportunity
 - Cash, high theft assets, control over assets
- Unfamiliarity
 - Newer programs or processes
- Complexity
 - Difficult or complex programs

Risk Assessment (continued)

- Change
 - Turnover or change in program
- Rapid Growth
 - Fast growth without increased staff or resources

Understand the Risk

- Inherent Risk - Higher opportunity with liquid assets, such as cash.
- Fraud Triangle - Pressure, Rationalization and Opportunity.
- Focus on what you can control – Opportunity.
- Understand your process, ask questions and limit opportunity.

Billed Receivables and User Charges Risk

- Incomplete or Untimely Recording
 - Insufficient information to identify details needed for adequate oversight, risk of inaccuracies.
- Lack of Enforcement of Delinquent Accounts
 - Loss of revenues.
- Insufficient Oversight
 - No reconciliations with control accounts, concealment of theft.

Billed Receivables and User Charges Process

- Establishing rates and fees
- Preparing, printing and distributing bills
- Collecting and recording payments
- Maintaining customer accounts
- Making adjustments to customer accounts
- Applying penalties to delinquent accounts
- Preparing list of unpaid accounts for review/ collections

Assess Risks by Asking Questions

- How are rates established and reviewed?
- Who is maintaining customer accounts, processing bills, and collecting and recording payments?
- How are adjustments handled?
- Are adjustments properly authorized?
- Are reconciliations to control accounts completed?
- How timely are reconciliations performed?
- Will accounting errors be detected?
- What happens if there is a discrepancy?

Control Activities

- Policies and procedures designed by management to help ensure that the organization's objectives and goals aren't negatively impacted by internal or external risks.

Billed Receivables and User Charges Control Activities

- Directive Controls:
 - Job description, cash receipt policies
- Preventative Controls:
 - Segregation of duties, restricted computer access

Billed Receivables and User Charges Control Activities

- Detective Controls:
 - Reconciliations, inventories, budget vs. actual reports
- Corrective Controls:
 - Employee training, management assessment

Understand the Need for Controls

Policy Guidance

4-1-1 The governing board should create a written policy establishing, consistent with legal requirements, the frequency of user charge billings; billing rates; collection periods; the timing and amount of late charges; the enforcement of unpaid accounts; and any other guidelines necessary for the effective financial management of the service provided.

Reason for Control

Officers and employees need guidance on how to administer user charges and the financial aspects of providing these services. By establishing financial guidelines in a written policy the board will enable officers and employees to understand its expectations regarding billing, collection, and enforcement processes for user charges.

Understand the Need for Controls

Properly Designed Records

- 4-2-1 Individual customer accounts should include sufficient information to identify the names of the individuals responsible for payment of the bill, location of the property, mailing address (if different), account number, usage (actual or estimated), billing rates, and amount billed. A unique customer account code should be established for each account.

Reason for Control

Customer accounts provide a record of past billings and consumptions, collections, adjustments (if any), and unpaid balances for each customer.

- 4-2-2 Electronic (as well as manual) billing records or reports should include the grand total billed to all customers for the period.

Reason for Control

Billing grand total information is essential to establish accountability for amounts to be collected and helps serve as the basis for posting entries to receivable control accounts, such as SW380, the water rents receivable general ledger account.

- 4-2-3 Bills should include an identifying section to be returned with the payment. The identifying section should include the name, address, account number, and method of payment (cash, check, money order).

Reason for Control

The identifying (return) section of the bill helps ensure that the correct property owner or customer account is credited, and also provides evidence of payment for audit purposes.

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Understand the Need for Controls

Billing and Adjustment Procedures

- 4-3-1 In a small municipality with few people involved in the financial operations, the total amount to be billed for each period should be recorded in the minutes of the board's proceedings.

Reason for Control

Recording (in the minutes) the total amount billed not only informs the governing board of amounts expected to be collected, but also provides the basis for establishing accountability to those charged with collecting and reconciling amounts billed. It also helps prevent unauthorized changes to billing totals from occurring after bills are sent out.

- 4-3-2 The governing board or other authorized supervisory personnel should approve all billing adjustments, write-offs and refunds prior to such adjustments or refunds being made. The reasons for all adjustments should be documented and retained for audit purposes.

Reason for Control

Appropriate prior approval ensures that adjustments, write-offs, and refunds are made consistently and according to the locality's policy. In addition, requiring board or supervisory approval will reduce the opportunities for unauthorized adjustments, such as fake refunds to cover the theft of cash or reductions in billings to cover the nonpayment of an employee's personal bill.

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Understand the Need for Controls

Record-Keeping Procedures

- 4-4-1 Establish a separate receivable control account for each type of billed receivable (for example for water rents or sewer rents) to account for transactions related to the billed receivable process.

Reason for Control

A receivable control account is an accounting record for recording and summarizing total billings, total collections, adjustments, and the outstanding balance of billed receivables. A properly maintained receivable control account allows for the balance of billed receivables to be readily determined and reconciled to individual customer accounts.

Note: In those limited situations where a general ledger system is not in use, a receivable control account record for billed receivables should still be established and maintained as a stand-alone manual record.

- 4-4-2 Post payments received to individual customer accounts as soon as possible.

Reason for Control

Prompt recording ensures the accuracy of customer accounts.

- 4-4-3 Reconcile the receivable control account balance to the sum of individual customer account balances, preferably each month. Identify and resolve the cause of any differences between the control account balance and the sum of customer account balances.

Reason for Control

The reconciliation of the control account balance to the sum of the individual customer accounts is a valuable check on the accuracy of the accounting records. A difference between these two records may indicate that record-keeping errors or fraud may have occurred. Differences should be promptly pursued, resolved and records adjusted accordingly. Reconciliations provide little internal control if differences noted during the reconciliation process remain unresolved.

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Understand the Need for Controls

Overdue/Delinquent Account Procedures

- 4-5-1 Apply interest and penalties in overdue customer accounts according to law and governing board policy, and record total interest and penalties in the receivable control account.

Reason for Control

Interest and penalties serve to encourage prompt payment and help pay for the administrative costs of the delinquent collection process. Applying interest and penalties uniformly ensures that no property owner or customer is granted a special favor.

- 4-5-2 Enforce delinquent accounts on a timely basis. A listing of delinquent accounts and the amounts due (base + interest and penalties) should generally be prepared and submitted to the board for approval at least once a year.

Reason for Control

Board review and approval of delinquent accounts provides an independent evaluation of the accounts and amounts deemed delinquent and also initiates the delinquent enforcement process.

- 4-5-4 The accuracy and completeness of delinquent lists prepared for levy or other enforcement actions should be verified by someone in a supervisory or oversight role.

Reason for Control

Employees with billing or collection duties (or both) can disguise errors and fraud by omitting, adjusting, or listing fictitious delinquent amounts.

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Assessing Controls

- Continuously assess controls that may be in place and determine if they are working properly and are efficient and effective.
 - Established rates are accurately charged.
 - Transactions are recorded in a timely manner.
 - Accounting records are accurate.

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Information and Communication

- Each employee should:
 - Understand their role.
 - Understand how their actions relate to others.
 - Understand that they have a responsibility to communicate problems they notice.
- Information and communication **MUST** be allowed to flow in all directions.

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Information and Communication

- Training opportunities
 - Annual
- Review of policies and procedures
- Addressing consequences
- Reporting of inaccuracies
- Exceptions

Billed Receivables and User Charges Information and Communication

- How are customer accounts documented and by whom?
- What happens if an employee violates policies and regulations?
- Who is providing oversight to detect inaccuracies?
- How can you provide confidence to taxpayers that the operation is running smoothly?
 - Are there clear procedures for incorrect billings due to equipment malfunctions?

Monitoring

- Monitoring determines whether or not policies and procedures are being followed.
- Monitoring identifies significant control deficiencies in a timely manner.

Monitoring

- Converting policies to actions
- Personnel policies, contracts and bargaining agreements
- No consequences
- Finding the cracks:
 - Follow-up questions
 - Walking the spaces
 - See the evidence

Billed Receivables and User Charges Monitoring

- Supervisory review of customer accounts to verify proper rates were charged and authorized adjustments applied.
- Reconciliations of control accounts to billing records.
- Requiring reports be submitted to and periodically reviewed by the Board.
- Independent complaint intake.

Don't take someone's word for it.

- Do not forget to ask follow-up questions and ask for evidence.
 - “Show Me...”
 - “Let me see...”

Audit Findings

- Effective procedures were not developed to ensure charges were accurately billed, recorded, collected and enforced.
- Board-adopted rates were not charged.
- Unauthorized adjustments were made to accounts.
- Customer bills were not accurately prepared.
- Delinquent accounts were not always assessed penalties in accordance with Board-adopted policies.

Available Tools



Available Tools

- CPA Audit Reports
- OSC Audit Reports
- Policy Manuals and Procedures
- Training
- Other Municipalities/Districts
- Associations

Thank You

Division of Local Government and School Accountability
localtraining@osc.ny.gov