



DATE: October 31, 2008

TO: RANDY BRUEGMAN, Fire Chief  
Fire Department

THROUGH: RENENA SMITH, Budget Director  
Budget and Management Studies Division

FROM: BOB KOURY, Principal Internal Auditor  
MARY VIANCOURT, Internal Auditor  
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Budget and Management Studies Division - Internal Audit

SUBJECT: CASH RECEIPTS AND ACCOUNTS RECEIVABLE AUDIT

Attached is the Final Audit Report of the Cash Receipts and Accounts Receivable Audit. Internal Audit wishes to thank you and your staff for their cooperation and assistance in performing the audit.

City and Department Management has responsibility for implementation of Internal Audit recommendations and for establishing an effective system of internal controls. Internal Audit believes the implementation of our audit recommendations to the best of your department's ability will aid your Department and City Management in accomplishing the Key Objectives of Customer Satisfaction (citywide), Employee Satisfaction (internally) and Financial Management.

Internal Audit will perform a follow-up audit six to twelve months after this report is issued to verify that each recommendation has been implemented or that the issue documented in the finding has been resolved in a manner that addresses the weakness or risk identified. The follow-up audit is performed in accordance with AO 1-12 and Government Auditing Standards.

If you have any questions regarding this matter, please do not hesitate to contact Bob Koury, Principal Internal Auditor at 621-7072.

Attachment

cc: Alan Autry, Mayor  
Council Members  
Andrew T. Souza, City Manager  
Bruce Rudd, Assistant City Manager  
Gary Watahira, Deputy City Manager  
Cheryl Carlson, Management Analyst III, Fire Department  
Kerri Donis, Deputy Chief, Fire Prevention and Investigation Division  
Joel Aranaz, Deputy Chief, Fire Suppression and Emergency Response Division  
Karen Bradley, Interim Finance Director/City Controller  
Pedro Rivera, Senior Budget Analyst, BMSD

# **INTERNAL AUDIT**



## **FINAL AUDIT REPORT**

### **Fire Department**

## **Cash Receipts and Accounts Receivable Audit**

### **Performed by:**

**Mary Viancourt, Internal Auditor**

**Bill Richards, Internal Auditor**

**Budget and Management Studies Division – Internal Audit**

**Issued on October 31, 2008**

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## Executive Summary

In conjunction with a series of audits of the Fresno Fire Department (FFD), Internal Audit performed an audit of the Cash Receipts and Accounts Receivable process. The audit was performed to ensure that adequate controls are in place regarding cash receipts and accounts receivable. While performing this audit, Internal Audit considered whether improvements could be made to strengthen internal controls over this revenue process and to enhance the operational efficiency and effectiveness of this area of the Department.

Risk is the degree of or the lack of internal controls, management oversight and fiscal responsibility. Based upon Internal Audit's findings, the FFD's Permitting Process risk is high.



### Key Issues Identified:

- Policies and Procedures Manuals have not been developed.
- Cash Receipts duties and responsibilities were not adequately segregated.
- Deposits were not always timely.
- An Accounts Receivable Aged Report has not been developed.

### Risks Identified:

- Lack of consistency in duties performed and reference source for current and future employees.
- Undetected errors, misappropriation or other irregularities may occur when no other personnel are involved in or supervise the Cash Receipts process.
- Interest income is minimized when deposits are untimely.
- Lack of an Accounts Receivable Aged Report inhibits management's ability to evaluate, monitor and take appropriate actions to enhance collections of such receivables.

## **Key Recommendations to Management:**

- FFD Management should immediately develop and implement formalized (written) Policies and Procedures for all Cash Receipts and Accounts Receivable functions (including date/time stamping all materials received) and responsibilities to ensure transactions are properly processed and furnish a reference source for current and future personnel.
- FFD Management should review and revise job duties to ensure the adequate segregation of duties over receipting, recording and depositing of funds to minimize the risk of misappropriation or other irregularities of Department cash receipts.
- FFD Management should review the work flow process and staffing level to evaluate the feasibility of depositing receipts within one to two days of receipt to maximize interest income.
- FFD Management should develop and implement an Accounts Receivable Aged Report to assist management in evaluating and monitoring delinquent accounts receivable for enhanced collections.

# INTRODUCTION

## **Background**

In conjunction with our other audits of FFD, Internal Audit performed a limited scope audit of Cash Receipts and Accounts Receivable (A/R). Internal Audit reviewed the Fire Department's Fiscal Year (FY) 2008 and FY 2009 Master Fee Schedules (MFS) to determine the sources and amounts of revenue Fire is charging for services performed. Four key fee areas were noted: a) Plan Review/Approval; b) Fire Alarm Systems; c) Inspections; and d) Special Hazards and Hazardous Material. Other types of fees were also noted.

The FFD has four Divisions: the Administrative Services Division; the Fire Prevention and Investigation Division; the Fire Suppression and Emergency Response Division; and the Fire Training and Support Services Division. This audit focuses on the Administrative Services Division's responsibility to receive/invoice fees charged, process the payments received, and deposit the revenue timely. These duties to bill and collect the revenue generated are a result of services performed by the Fire Prevention and Fire Suppression Divisions.

Internal Audit selected samples of various FFD fees to review and test for adequate controls over receipting, invoicing, recording and depositing. Internal Audit discussed findings throughout the audit which allowed the Administrative staff to take immediate action and/or will be able to consider our findings and recommendations upon receipt of this report.

## **Examples of Fees**

- **Building Permit Surcharge** – A fee charged for new construction or major remodel of a building that requires plans to be submitted to the Planning and Development (P&D) Department's Building Division for review and approval prior to construction. The FFD receives a percentage of the fee charged based upon the type of commercial or private building, square footage, and use (e.g. Apartment, Industrial)
- **Sprinkler System Plans Permit** - Contractors submit the Sprinkler System plans to Fire Prevention Staff for review and approval. After plan approval and payment of the appropriate fee the permit is issued.
- **Sprinkler Installation of 20 Heads or Less Permit** – Contractors submit the plans to FFD for review and approval by Fire Prevention staff. The site is inspected to ensure proper installation of hangars, bracing, heads and spacing of the sprinklers. After the plan and inspection approvals and payment of the appropriate fee the permit is issued.
- **Sprinkler Monitoring Equipment Installation Permit** – Contractors/Owners submit fees to FFD for review and equipment testing of sprinkler monitoring equipment in order to obtain a permit prior to occupancy.
- **Fire Alarm Plans Permit** – Contractors/Owners submit these plans to FFD for review and approval. After approval and upon payment of the appropriate fee the permit is issued.

- Initial and Re-Inspections – A fee invoiced by FFD based upon occupancy type and square footage for inspections performed by Prevention Inspectors and/or Fire Station personnel of commercial buildings to ensure compliance with all applicable Building and Fire Codes.
- Hazmat Permit – A fee invoiced by FFD after an inspection of the business is performed and a determination that a permit is required due to the type and quantity of hazardous products at the business site. These hazardous products can present a Health, Life and Safety Risk to the public and emergency response staff. The permit is issued upon payment of the invoice.
- False Alarm Fees – A fee charged to a commercial business or private resident, (if applicable) for more than one False Alarm per year. The FFD does not bill for the first false alarm per year or a second False Alarm within one hour. False Alarms are invoiced to the business or residence after a Fire Suppression team and vehicle has been dispatched to the alarm location to ensure the alarm is a false alarm and not an actual fire.
- 5-Year Test Permit - The State Fire Marshal Code Title 19, Division 1, Chapter 5 requires a 5-Year Sprinkler System Inspection and Testing. This test is required to ensure unobstructed water flow through the water system which the FFD connects to for Fire Suppression. A licensed outside contractor must perform the inspection and testing in the presence of a Fire Prevention Inspector. Upon approval of the test and payment of the fee the permit is issued.
- Pyrotechnic Display Permit – A fee submitted with an application by a commercial pyrotechnic company to perform a public fireworks display(s).
- Fireworks Stand Permit – A fee paid and submitted with a complete Fireworks Application Packet by a non-profit organization or fireworks vendor to sell safe-and-sane fireworks during the current fireworks season. After initial inspection of the fireworks stand to confirm compliance with all laws and regulations a permit to sell safe and sane Fireworks is issued.
- Dance Permit – A fee paid along with the submission of an application for Dancing at a Commercial Business location at Finance’s Utilities, Billing and Collection (UB&C) Division (\$84 of \$462 fee goes to FFD). After approval by the Fire, Police and Risk Management Departments, the permit is issued by UB&C.

## **Audit Objectives**

The primary objective of the audit was to determine whether internal controls over Cash Receipts and Accounts Receivable were adequate to safeguard the City's assets. In addition, determine whether Cash Receipts and Accounts Receivable Policies and Procedures exist and are well documented.

## **Audit Scope and Methodology**

The audit was performed during the period July through August 2008 in accordance with Administrative Order 1-12 and Generally Accepted Government Auditing Standards. The audit objective was accomplished by performing observations to gain an understanding of the cash receipts and accounts receivable processes, conducting interviews, testing deposit records, reviewing invoices, and reviewing the Emergency Records (ER) System Fee Schedule. The information gathered was analyzed to identify to the extent possible strengths and weaknesses of the processes. Internal Audit did not review the permit fees forwarded and processed by other City Departments. Internal Audit performed other audit procedures as considered necessary under the circumstances. During the course of the audit, Internal Audit discussed the audit findings with FFD Management.

## **Audit Conclusion**

The FFD Administration Services/Finance Section staff is a very professional and dedicated group of individuals that Internal Audit commends for their efforts and accomplishments in this important revenue process. Based on the results of the audit, Internal Audit identified areas that need internal controls strengthened to improve operational efficiencies and effectiveness. Internal Audit believes the implementation of these recommendations will aid in accomplishing the City's Key Objectives of Customer Satisfaction, and Financial Management.

## AUDIT FINDINGS AND RECOMMENDATIONS

### Finding 1 – Lack of a Policies and Procedures Manual(s)

Detailed Policies and Procedures (P/P) is an element of internal control that documents all the duties required to be performed by department employees. Detailed P/Ps also allows other staff to step in and perform the duties if necessary.

These procedures should include explanations of why tasks are performed, task relationships between one another, and an overview of important information needed to perform these tasks, including deadlines and examples. Procedures should also include who monitors and provides oversight of the entire process. Documented procedures provide the necessary accountability and a means for a smooth transition when a key employee(s) retires (the current employee who has been performing A/R duties for approximately ten years is retiring) or new employees are hired.

#### **Audit Finding:**

1. A formalized (written) Policies and Procedures Manual for the Cash Receipts and Accounts Receivable operations and responsibilities has not been developed and implemented. Informal Desk Reference Manuals developed by individual employees are currently utilized.

#### **Audit Recommendation:**

1. FFD Management should immediately develop and implement formalized (written) Policies and Procedures for all Cash Receipts and Accounts Receivable functions (including date/time stamping all materials received) and responsibilities to ensure transactions are properly processed and furnish a reference source for current and future personnel.

### **MANAGEMENT RESPONSE TO RECOMMENDATION 1**

1. **FFD Management will prepare a formal Policies and Procedures Manual for Cash Receipts and Accounts Receivable operations and responsibilities as recommended. The information contained within the existing desk manuals will be incorporated into a more formal document that will serve as a reference source for current and future personnel. The manual will be finalized by November 30, 2008.**

### Finding 2 – Cash Receipts Duties Not Adequately Segregated

One employee is currently responsible to mail invoices, open the mail, record the payments, and prepare the deposit. The risk of undetected errors is high when no other personnel have any significant involvement in the process. Segregation of duties provides assurance that assets and records have been safeguarded and financial records are complete and reliable. Although the

small size of the staff limits the extent of separation of duties, Internal Audit believes steps should be taken to separate incompatible duties as much as possible. When the same person performs multiple cash handling duties, it can compromise and weaken controls over cash, and employees are in jeopardy of being held responsible for events over which they may or may not have control. With separation of duties, both the custodian and the City are protected.

**Audit Finding:**

2. The FFD's cash receipts duties and responsibilities are not adequately segregated so that one person does not perform the entire cash receipts and depositing process or is not responsible for multiple duties that are incompatible.

**Audit Recommendation:**

2. FFD Management should review and revise job duties to ensure adequate segregation of duties over receipting, recording and depositing of funds to strengthen internal controls and minimize the risk of misappropriation or other irregularities.

**MANAGEMENT RESPONSE TO RECOMMENDATION 2**

2. **The department will be expanding the duties of the administrative clerk responsible for opening/distributing the mail to include date stamping of all materials received (checks and stubs) and preparation of a check log. FFD Management will then incorporate an additional level of review/reconciliation of the check log to the ER report of cash receipt payments posted and the PeopleSoft (PS) deposit report by another staff person in an effort to strengthen internal controls within existing staffing levels. These new processes will be documented in the Policies and Procedures Manual.**

**Finding 3 – Untimely Deposits of Cash Receipts**

The FFD Finance staff prepares cash/check payments for deposit and delivers the deposit to UB&C usually by 11:00 a.m. on Monday, Wednesday and Friday. UB&C requires all daily deposits to be submitted on or before 1:00 p.m. Monday through Friday. The established City Policy for the deposit of City funds is to prepare the funds for daily deposit and armored car pick-up. Enhanced interest income is realized when receipts are deposited daily versus when deposits are made less timely. Note: The revenue received date has more recently been recorded in the ER System notes fields to monitor deposit timeliness, resolve any payment disputes and for audit trail purposes.

Pre-Inspection Fee – Internal Audit reviewed 17 Cashiers Memos from 14 different deposit dates during the period July 2007 through June 2008. Individual payments were found to have deposit dates ranging from the next day to 15 days from the received date to the deposit date.

5-Year Sprinkler Permit Test Fees – Internal Audit reviewed 68 Permits Forms from 17 different deposit dates during the period April through June 2008. The fee amount matched the MFS but

the check number, date and initials of the clerk receiving the fee were not always written on the Permit Form. Individual invoice payments were found to have deposit dates ranging from the same day to 21 days from the date of receipt to the date of deposit. Some payments for deposit were held while errors were being corrected prior to deposit.

Site Inspection Fees – Internal Audit reviewed 256 invoices from four deposits dated January 15, April 3, June 30 and July 3, 2008. These invoices included both Initial and Re-inspection fees. All mail received by the FFD is not date/time stamped. Internal Audit researched the ER System Invoice notes field to obtain the recorded received date for each of the 256 invoices but the ER System invoice notes field did not contain the checks received date for the January 15 and April 3 deposits. Therefore, Internal Audit was unable to determine the timeliness of the January and April deposits. Date stamping checks with the received date and always recording the received date in the ER System would provide documented information regarding customer payments and for audit trail purposes. Revenue received on June 26 was not deposited until June 30 (4 days) and revenue received on June 25 was not deposited until July 3 (8 days). Deposits were not always timely ranging from 4 days to 8 days from the received date to the deposit date.

**Audit Finding:**

3. Deposits of cash receipts are not made in a timely manner.

**Audit Recommendations:**

3. FFD Management should review the work flow processes and staffing level to evaluate the feasibility of depositing receipts within one to two days of receipt to maximum interest income.
4. FFD Management should ensure the revenue received date is always recorded in the ER System notes fields and consider date stamping checks received to ensure documented payment information is available to monitor deposit timeliness, resolve any payment disputes, and for audit trail purposes.

**MANAGEMENT RESPONSE TO RECOMMENDATIONS 3 and 4**

3. Under the current process, staff must enter cash receipt information into two different systems (ER, the invoicing system and PeopleSoft (PS) for the deposit), in effect, doubling the amount of data entry required. There is also considerable volume at times with the mail being delivered mid-late afternoon. From the receipt and distribution process, the posting of the checks into the ER system and subsequently into PS usually takes staff past the deposit deadline for that date and into the following day. With thousands of invoices and subsequent checks, those invoices for which the account cannot be easily identified are held from that days deposit for research to determine the appropriate account to be applied to. If they cannot be easily identified, the department routinely calls or sends out letters requesting additional information. Pending the property owner response, this will result in checks being held for the timeframes noted in the findings. FFD

**Management is assessing the workflow and attempting to identify efficiencies in the process to balance deposit requirements with workload.**

- 4. As noted, staff is entering the revenue received date in the ER System notes fields to monitor deposit timeliness, resolve any payment disputes and for audit trail purposes. The department will also implement the new procedure for date stamping of all documents and creation of a check log to strengthen internal controls.**

#### **Finding 4 – Lack of an Accounts Receivable Aging Report**

A consolidated Accounts Receivable Aging Report was not in existence for audit purposes or for management monitoring of Accounts Receivable. The lack of a consolidated Accounts Receivable Aging Report prevented;

- Internal Audit from completing a verification of the accounts.
- Inhibits FFD Management’s ability to effectively evaluate, monitor and take appropriate actions to enhance collections of such receivables.

Internal Audit requested from and reviewed the following Accounts Receivable data:

- From Fire’s Administrative Services staff, information for Site Inspections contained in their ER System and HazMat information contained in their HazMat System; and
- From the City’s Finance Department, information for False Alarm Fees and Illegal Fireworks Citations.

Internal Audit gathered the available data and estimated an Accounts Receivable balance of \$360,000 for FY 2008 and \$129,000 for FY 2009 (as of 7/30/08). An estimated 45 percent of the \$360,000 receivables for FY 2008 are 120 days old.

#### **Audit Finding:**

4. The FFD Administrative Staff does not have an Accounts Receivable Aging Report.

#### **Audit Recommendations:**

5. FFD Management should develop and implement an Accounts Receivable Aged Report to assist management in evaluating and monitoring delinquent accounts receivable for enhanced collections.
6. FFD Management should consider meeting with the City Finance Department to discuss the feasibility of collection assistance. If not feasible, then FFD should evaluate the cost/benefit of pursuing an outside collection agency to assist in Accounts Receivable collection.

## **MANAGEMENT RESPONSE TO RECOMMENDATIONS 5 and 6**

- 5. Currently, invoices for various services are created from at least three different systems; therefore a consolidated aging report is not possible. FFD Management is in the process of attempting to acquire a new records management system and invoicing/accounts receivable program that will interface to PS to reduce the need for duplicate entry and multiple systems.**

**The ER system currently in use was developed as a fire records management system, and was not designed to process the large volume of inspections/invoicing processes that FFD currently has in place. The department believes that this recommendation, and others noted in this report will be addressed through the implementation of a new system specifically designed for invoicing and accounts receivable. The department is hoping to be able to move forward with these new systems beginning in 2009.**

- 6. FFD currently utilizes the services of Finance for collection of delinquent False Alarm and Fireworks citations, and previously utilized an outside collection agency for certain accounts receivable. The department has also recently enrolled in the California State Franchise Tax Board Tax Intercept Program in an effort to further collection efforts. Delinquent inspection invoices are subject to a citation penalty process and the department is pursuing through the City Attorney's Office placement of liens on properties with any delinquent fees and citations similar to the process utilized by Code Enforcement.**

## **OTHER TESTS PERFORMED**

### **Finding 5 – ER System Fee Schedule Not Updated**

Internal Audit matched the ER System Fee Schedule to the MFS (Master Fee Schedule) and identified fees in the ER System Fee Schedule that did not match the MFS.

- The ER System has the Re-Inspection 3&4 fee for Type A,E,H,S 150,001-200,000 square feet as \$185. The MFS lists the fee as \$182.
- The ER System has the Re-Inspection 1 fee for Type R1 100+Units as \$176. The MFS lists the fee as \$178.
- The Type I (hospitals, nursing homes with medical care, prisons and mental facilities) fees in the ER System do not match the MFS by a range of \$21 to \$173.

Internal Audit was unable to determine the number and fiscal impact of site inspection invoices issued with an incorrect fee. Non-compliance with the MFS results in the issuance of site inspection invoices for an amount different than the MFS. An improper fee amount prevents the invoicing and collection of the proper fee. Internal Audit discussed this issue with FFD Management and immediate corrective action was taken to correct the fees in the ER System.

**Audit Finding:**

5. There is no formal policy and procedure for updating the ER System Fee Schedule with changes in the MFS.

**Audit Recommendation:**

7. FFD Management should establish and implement a formal policy and procedure to ensure the ER System Fee Schedule is updated with amendments to the MFS.

**MANAGEMENT RESPONSE TO RECOMMENDATION 7**

- 7. FFD Management will incorporate a policy into the formal Policies and Procedures Manual to include verification by two separate individuals that the fee schedule set-up within the invoicing system reconciles to the current approved Master Fee Schedule. In addition, the fee schedule will be re-verified upon any billing code changes and invoices randomly verified as an additional level of verification.**

Finding 6 – Re-inspection Invoices Not Always Issued

Internal Audit reviewed a sample of 30 Re-inspections performed during the period July 1 through August 15, 2008. The Re-inspections included first, second, and third re-inspects. Internal Audit was unable to locate documentation in the ER System for the issuance of 23 of the invoices for a total of \$2,156 of unbilled receivables or lost revenue. Internal Audit discussed this issue with the Department A/R Clerk and Management Analyst III and was informed the 23 Re-inspection invoices were not issued due to a problem in the ER System. FFD personnel took immediately action to correct the problem.

**Audit Finding:**

6. Invoices for Re-inspections performed were not always issued resulting in a loss of revenue.

**Audit Recommendation:**

8. FFD Management should establish and implement a procedure for the reconciliation of the Re-inspections performed to the invoices issued to ensure all invoices were issued.

**MANAGEMENT RESPONSE TO RECOMMENDATION 8**

- 8. This system error occurred when a new billing code was implemented to separately identify North Central Fire Protection District invoices from FFD invoices. Upon discovery, the department immediately took corrective action as noted.**

**FFD Management is in the process of attempting to acquire a new records management system and in conjunction, a complete invoicing and accounts receivable program that will work with PS to reduce the need for duplicate entry. The ER system currently in use was developed as a fire records management system, and was not designed to process the volumes of inspections/invoicing processes that FFD currently has in place. The department believes that this recommendation, and others noted in this report will be addressed through the implementation of a new invoicing system. The department is hopeful to be able to move forward with these new systems beginning in 2009.**

**In the meantime, however, the department will attempt to develop a process to reconcile re-inspections performed to invoices issued.**

**The department wishes to acknowledge the thorough and professional work of the internal audit staff in conducting their review, and the department will make every effort to implement the recommendations noted.**