

**SCHOOL DISTRICT OF ESCAMBIA COUNTY
INTERNAL AUDITING DEPARTMENT**

ACCOUNTS RECEIVABLE REVIEW

PROJECT # 2003-02

Accepted By Audit Planning and Review Committee:

May 12, 2003

Published:

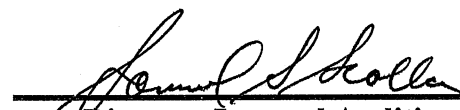
May 20, 2003

Field Work Conducted By :



Auditor

Report Issued By:



Director, Internal Auditing

APPROVED
School Board of Escambia County

MAY 20 2003

JIM PAUL
Superintendent of Schools

**SCHOOL DISTRICT OF ESCAMBIA COUNTY
ACCOUNTS RECEIVABLE
FOR THE PERIOD ENDED JUNE 30, 2002**

REVIEW REPORT

BACKGROUND, SCOPE AND OBJECTIVES

In response to related audit findings by the Auditor General in their audit report of the District for FY 1999-2000, a review by internal audit staff was conducted beginning October 11, 2002 and covered the fiscal year ending June 30, 2002. This review was conducted to assess the policies, procedures and internal controls relating to the recording and monitoring of accounts receivable. The accounts receivable section of the Statement of Net Assets for the period ended June 30, 2002 of the District School Board of Escambia County shows a net balance of \$777,902.44. The balances in the accounts receivable are a blend of many types of receivables. These accounts range in complexity from simple NSF checks in the food service program to multi-year workers compensation claims. The policies and procedures being reviewed address proper initiation of accounts receivable, billing of accounts, continuous monitoring of individual account balances, receipt of payments against the accounts and the procedures in place to write off those accounts deemed uncollectible. These policies, procedures and internal controls are necessary to ensure the accurate valuation of accounts receivable on the financial statements. Our review was conducted in accordance with the Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

FINDINGS

In the risk management area, receivables recorded in the Employee Benefit Trust Fund associated with retiree's health and life insurance premiums are being monitored on a timely basis with monthly tracking reports and follow up letters for any account in arrears. The accounts for worker's compensation and auto liability categories are not monitored as closely. Case files are maintained for each claim with receivables set up for each case. The most recent case in the automobile liability category is dated January 1997. The oldest case file is dated May 1992. In the automobile liability category, no collections have been made on seven out of eight cases. The only collection made was dated January 1997. The files in the worker's compensation account consist of nine cases. Five of these cases have had no activity since they were entered into the system in June 2000. Of the four remaining cases, one has had no activity since January 1995.

The accounts receivable in the food service area are related to NSF checks written to the food service program. The accounts in this category are currently being analyzed to determine which ones are candidates to be written off due to their age.

The remaining balance in accounts receivable represent a balance on the financial statements of \$480,041.40. The individual accounts in this category represent a wide

Accounts Receivable Review

May 8, 2003

Page 2

range of activities from vandalism awards owed to the District to amounts owed for items ordered from the warehouse by day care centers. Many of the individual files that make up this account balance are vintage 1996 or older. It is unlikely many of these will ever be recovered and should to be evaluated for possible write off.

A number of factors have contributed over the years to cause many of the accounts receivable balances to be of questionable value due to the age of the individual accounts. Responsibility for monitoring the accounts has been shifted between personnel due to retirements, resignations, etc. Because such monitoring has been shifted among personnel, some of the accounts were not monitored for extended periods of time. There appears to be a disconnect between the creation of accounts receivable, the monitoring of the accounts and the subsequent collection or write-off of the balance.

Currently, the responsibility for accrual, monitoring, receiving payment, crediting to the proper account and following up on non-payment is spread among multiple departments with limited communication between them. With the exception of the Employee Benefit Trust Fund account, the subsidiary ledgers that support the balances in these accounts are a mixture of spreadsheets and in some instances manual case files. There does not appear to be monitoring of the individual accounts nor have invoices been reissued in cases of nonpayment. It also appears when payments are received; they may not agree with the invoices that were originally sent out. When an individual disputes the charges or remits payment in an amount different from the invoice, the difference is not analyzed to determine if it is in error. These differences remain in the account balances and lose their value as time passes.

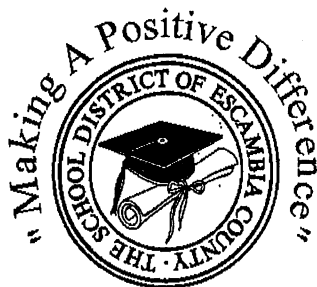
RECCOMENDATIONS

At this point, many of these individual account balances appear to be of questionable value due to their age. Without adequate backup to support the original balances, collection on these accounts is improbable. A thorough analysis of the individual balances in each category of accounts receivable should be undertaken to determine which balances have value and which balances should be written off. After the accounts have been evaluated and cleansed of balances of questionable worth, the remaining files should be worked for collection.

In addition, responsibility for the follow up and subsequent billing on accounts needs to be delegated to specific district staff to ensure continued collection of accounts receivable.

A system to continually monitor the individual accounts needs to be implemented to ensure the subsidiary ledgers tie to the balances in the financial accounting system. Small personal computer based accounts receivable systems are available for billing, ageing and monitoring of miscellaneous accounts receivable and the feasibility of acquiring one of the systems should be investigated.

Please see the management's response attached.



Memorandum

ok

To: Mr. Jim Paul
Superintendent

From: Barbara Linker *Barbara Linker*
Assistant Superintendent for Finance

Date: April 28, 2003

Subject: Response to Accounts Receivable Review

APPROVED
School Board of Escambia County

MAY 20 2003

JIM PAUL
Superintendent of Schools

The review of accounts receivable performed by the Internal Audit department for the period ended June 30, 2002 included various types of receivables that are recorded and collected by the District's Finance department. In order to address the issues raised by the auditors, we would like first to identify the categories of receivables and the dollar amounts represented by each category. The balance of \$777,902 referred to in the review report as of June 30, 2002 is comprised of the following:

Risk Management Trust Fund:	
Auto Liability Claims Receivable	\$ 17,334
Worker's Compensation Claims Receivable	164,761
Employee Benefit Trust Fund:	
Retiree's Premiums	1,751
Special Revenue Fund:	
Food Service NSF Checks	1,493
Other Federal Program Receivables	72,207
General Operating Fund:	
General Receivables	408,223
Employee Receivables	3,381
Misc. and Outside Agency Receivables	108,752
Total Accounts Receivable as of 6/30/02	\$ 777,902

It should be noted that the Finance department has been aware of deficiencies in the area of accounts receivable that have existed for several years. Under the current administration, efforts have been underway to correct these deficiencies

and progress has been made. We will continue our efforts to correct those areas where we recognize that improvements need to be made. As a part of this process, the Finance department, working in connection with other appropriate departments, has been taking steps to evaluate the validity of existing receivables on the District's accounting records and determine the likelihood of collection. This action has been focused on those receivables that have been in existence for many years with little or no activity recorded. Due to the age and nature of the receivables, research has been difficult.

All accounts receivable balances are reconciled monthly by finance staff and except for the auto liability and worker's compensation claims, invoices are issued to organizations or persons who owe the District money. The Risk Management Department is responsible for follow-up on claims related receivables and Finance staff is assigned to all other receivables. There is a procedures manual in the Budgeting Department that assigns responsibility for and describes the process for monthly reconciliation of the various receivables. Other departments within the Finance area are currently updating their procedures manuals to clearly delineate the responsibilities regarding accounts receivables.

Both the Auditor General audit reports and the Cherry, Bekaert & Holland management letter that are referenced in the review report refer only to weaknesses in the area of risk management receivables. As noted in the descriptions of the various types of receivables that follow, this area has specific difficulties associated with monitoring receivables.

With regard to the specific areas of accounts receivable mentioned in the review report, we offer the following:

- 1) **Auto Liability Claims** - These receivables represent amounts due to the District from individuals responsible for auto accidents. The original dates of the accidents range from 1992 to 1997. The monthly reconciliation worksheet as of June 30, 2002 indicates that collections have been made on two of eight cases. The newly established Risk Management Accountant is working with the Risk Management department to determine if these amounts are collectible. Amounts determined not to be collectible will be presented to the School Board for approval to be written off.

- 2) **Worker's Compensation Claims** - These receivables all relate to amounts due from the Special Disability Fund. The five cases that are referred to as "entered into the system" in 2000 were actually adjusted to the proper carrying amount in 2000. The actual dates of those claims range from 1995 to 1997. These claims are paid from the Special Disability Fund as monies become available in the Fund and it is not unusual for claims to be outstanding for many years before payment is received from the Fund. The Risk Management Accountant has documentation from insurance representatives of the Fund indicating

APPROVED
School Board of Escambia County

MAY 20 2003

JIM PAUL
Superintendent of Schools

that reimbursement for \$45,047.60 of the claims is expected in 2003. In addition, \$118,834.71 has been collected on the claims since June 30, 2002. These receivables are valid receivables that are reconciled monthly and monitored. During the period reviewed, there was no activity on the claims, nor was there anything that could be done by the District staff to generate payment on the claims.

- 3) **Food Service NSF Checks** - The balance of accounts receivable for NSF checks in the Special Revenue Fund – Food Service at June 30, 2002 included uncollectible checks dating as far back as 1989. All uncollected NSF checks were presented to the School Board at the December 2002 meeting for approval to be written off in January 2003. Only current accounts receivable for NSF checks now exist in the Special Revenue Fund – Food Service. The balance as of January 31, 2003 was \$341.20. Balances will be evaluated for write-off annually.
- 4) **General Receivables** - This category actually contains two sub-categories with different issues. The majority of receivables in this category are comprised of receivables created by court-ordered restitution plans for vandalism, burglary, destruction of property or other costs payable to the District by criminal defendants. Payments received on these are made through the court system or Department of Corrections. The balance in this group as of June 30, 2002 was \$301,102. We are in agreement that some of these receivables may be uncollectible. The Risk Management Accountant is working with the Risk Management department to reconcile outstanding claims with the records of the court system and to determine which balances may still be collectible. Of the balance at June 30, 2002, we maintain that \$84,283 represents valid receivables, as there have been payments received on those accounts within the past twenty-four months.

The second sub-category within general receivables represents miscellaneous receivables that are not appropriately included in any other category or fund. The balance in this group as of June 30, 2002 was \$107,600. Of this amount \$92,901 has been paid since June 30, 2002, verifying that those amounts represented valid receivables. Again, these receivables are reconciled to the general ledger monthly and monitored. Research is being done to determine the validity of old amounts and any uncollectible accounts will be presented to the School Board for approval to be written off.

- 5) **Employee Receivables** – Although these receivables were not specifically addressed by category, they do make up \$3,381 of the \$480,041 balance referred to in the review report. As part of our ongoing efforts to correct the deficiencies related to accounts receivable, the Finance department staff has evaluated accounts receivable balances related to current and former employees. The Board

APPROVED
School Board of Escambia County

MAY 20 2003

JIM PAUL
Superintendent of Schools

attorney was consulted concerning the proper steps to be taken regarding collection efforts. District staff has collected the majority of outstanding balances through written communication and creation of payroll deductions, where appropriate.

- 6) **Misc. and Outside Agency Receivables** – These receivables represent amounts due to the District for purchases from the warehouse, bus trips, leased employees, etc. The receivables are reconciled monthly. Some minor discrepancies occur between the amounts invoiced and paid. These are analyzed and referred to the appropriate department for resolution. As noted before, there are some very old items on the books, including some immaterial payment discrepancies, that staff is researching and working to resolve. As of January 31, 2003, there were only three accounts in miscellaneous accounts receivable that were created prior to the 1999/2000 fiscal year.

In conclusion, we acknowledge that the likelihood of collection and background of certain of the receivables should have been investigated in prior years. The time that has elapsed since the creation of some of the questionable receivables makes the analysis difficult and time consuming. However, we are committed to continuing our investigation of the nature of and feasibility of collection for the older receivables. In the future, every effort will be made to continue to monitor accounts receivable and collect amounts due to the District in a timely manner.

APPROVED
School Board of Escambia County
MAY 20 2003
JIM PAUL
Superintendent of Schools