

PD AAY-776

UN

AUDIT OF A.I.D.'s
ACCOUNTS RECEIVABLE SYSTEM

AUDIT REPORT NO. 9-000-89-004

JANUARY 17, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

ASSISTANT INSPECTOR GENERAL
FOR AUDIT

January 17, 1989

MEMORANDUM FOR AA/PEM, Robert Halligan

FROM: AIG/A, *James B. Durnil*
James B. Durnil

SUBJECT: Audit of A.I.D.'s Accounts Receivable System

The Inspector General's Office of Programs and Systems Audits has completed an audit of the Accounts Receivable System. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comments. Your comments are attached to the report as Appendix 1. The report contains one recommendation which is considered resolved. Please provide within 30 days the actions planned or taken to implement the recommendation.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

A.I.D.'s accounts receivable; include bills for collection due from employees, foreign governments, cooperating sponsors, contractors, suppliers, participants, and other U.S. Government agencies. Transactions generally result from overpayments, losses, costs disallowed as a result of audits and improper payments. As of September 30, 1987, there were 612 outstanding bills for collection amounting to \$7.3 million.

The Accounts Receivable System records basic data from all bills for collection and notices of collection/adjustments issued world-wide excluding loan payment activities. The system analyses dollar amounts owed to A.I.D and summarizes the billing and collection activities leading to collections. System reports include an aging analysis of outstanding bills and summary data for posting to the Agency Accounts Receivable General Ledger accounts. The Office of Financial Management's

- 1 -

Central Accounting Division (FM/CAD) within the Bureau for Personnel and Financial Management is the system manager for the Accounts Receivable System.

A.I.D. Washington has nine active collection offices responsible for preparing and issuing bills for collection, requesting payment from debtors, maintaining files on bills issued, following up on outstanding bills, assessing interest and late payment penalties, adjusting bills when required, and reconciling outstanding bills to the quarterly accounts receivable report prepared by the Central Accounting Division.

Legal requirements governing accounts receivable are set forth in the Federal Claims Collection Act (1966) as amended. This Act gives authority to compromise, suspend, or terminate collection action on claims not exceeding \$20,000. The Debt Collection Act of 1982, provides for mandatory assessments of interest, late-payment fees, and collection costs. A.I.D. may also disclose credit information, offset salaries, withhold against monies payable to debtors, and if necessary, contract with outside parties to service and collect debts. Procedures and controls regulating billing and collection procedures are in A.I.D.'s Financial Management Handbook 19, Chapter 7.

Audit Objectives and Scope

The audit was made by the Office of Programs and Systems Audits to determine the adequacy of A.I.D.'s Accounts Receivable Control System. The specific objectives were to determine whether (1) effective internal controls existed to provide accurate recording of accounts receivable; (2) the system provided adequate audit trails for management and operational reviews; (3) the system included security controls to prevent loss of data or error; and (4) accounts receivables were processed in accordance with Agency regulations and collection efforts were timely and accurate.

Field work included a review of operating policies and procedures, system flowcharts, file and record layouts, selected output reports relating to the Accounts Receivable System and selected accounts receivable files. Personnel who use the system (the Bureau for Management and the Bureau for Personnel and Financial Management) and personnel who maintain the system (Office of Information Resources Management) were interviewed. The review of accounts receivable files was limited to eight of the nine active A.I.D. Washington billing offices. Using random sampling techniques 236 of 612 accounts receivable files totalling \$1,095,845 were reviewed. No overseas missions were visited, however, reports of billing and

collection transactions (U-141) submitted by the overseas missions were reviewed to determine if they were properly recorded in the system.

The audit covered the period from October 1, 1984 through September 30, 1987. Field work was started in May 1988 and was completed in September 1988. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

The Accounts Receivable System contained sufficient internal controls for entering accurate data. The system also had adequate audit trails for management and operational reviews. There were satisfactory security controls to prevent errors and loss of data. However, A.I.D. procedures were not always followed and accounts receivables collection efforts were inadequate. These same findings were reported in three prior audit reports.

Agency Procedures Were Not Followed And Collection Actions Were Inadequate

Handbook 19 establishes procedures for billing offices to follow, control, collect, and write-off amounts owed to A.I.D. The eight billing offices reviewed did not (a) reconcile detailed records to the system; (b) initiate required collection efforts; (c) write off uncollectible accounts; and (d) make adjustments when indicated to correct entries or eliminate small balances. As of September 30, 1987, more than 71 percent of the bills for collection had been outstanding for more than nine months (Exhibit 1). This occurred because the collection of accounts receivables was considered less important than the other billing office functions, therefore, accounts receivables were only worked on when time was left over from other responsibilities.

Discussion - A.I.D. billing office procedures require:

- maintenance of files on bills issued and follow-up actions;
- quarterly reconciliation of outstanding bills to the accounts receivable control records maintained by FM/CAD;
- forceful and persistent follow-up action on outstanding bills including three progressively stronger demands at not more than 30 day intervals;
- when it is determined that it is not feasible to continue collection efforts, the appropriate billing office can

recommend the indebtedness be: (1) reported to the GAO as uncollectible; (2) written-off as uncollectible; or (3) referred to the General Counsel office or the Department of Justice.

The files at the billing offices were not effectively maintained or controlled. Documentation of collection efforts was insufficient. Sometimes files were misplaced because they were removed without adequate controls. In one office 27 of the 46 files to be reviewed could not be located.

The billing offices did not make quarterly reconciliations of their detailed records to the accounts receivable control records maintained by FM/CAD. In one billing office the detailed records totaled \$340,185 while the quarterly report showed a balance of \$415,780, a difference of \$75,595. This condition existed because some collections were not reported to the Central Accounting Division, files were misplaced or lost, and the billing office did not reconcile their files with the Accounts Receivable Quarterly Report. Lack of reconciliation procedures reduces the effectiveness of the accounts receivable system. The longer the detailed records go without reconciliation the more difficult it is to correct discrepancies.

Amounts owed were not periodically reviewed for adjustment. For example, outstanding bills for collection with payment offsets resulting in small negative or positive balances less than \$1 were not regularly reviewed and written off or deleted from the file. There were 684 items which were allowed to remain in the accounts receivable inventory for up to five years when they should have been deleted or written-off.

The accounts receivable collection effort was at best sporadic and minimal. The files showed virtually no evidence that follow-up letters or telephone contacts were made. One billing office designated to collect bills transferred from overseas missions and A.I.D. Washington billing offices made no discernible collection efforts. The files at this office indicated the bills had not received any collection or termination action for six years; the period in which most debts become noncollectible under the Statute of Limitations. As a result over 71 percent of the receivables were over eight months in arrears.

Procedures for disposing of old receivables were not being followed. For example, bills outstanding for more than 90 days were not being referred to the Controller or his designate for review and disposition as stipulated in the regulations. The primary reason for this was lack of follow-up as required. It is difficult to support offsets, legal action, write-offs, or other remedies when there is no evidence to show a collection effort was made.

We concluded, the collection efforts were too decentralized and lacked priority in each of the billing offices. This resulted in staff working on collections only when no other matters were pressing. There were not enough man-hours available in the billing offices to comply with A.I.D. collection procedures while meeting the more urgent needs of the offices.

Prior Audit Reports Showed The Same Weaknesses

Three audit reports describe the same deficient areas found in the current audit.

Audit Report No. 80-59, A.I.D. Needs to Improve Its Adherence to Procedures for Collecting Accounts Receivable, dated May 21, 1980, showed that A.I.D. Washington Billing Offices had millions of dollars in administrative debts outstanding. Much of this debt was over two years old and had remained outstanding longer than necessary because billing offices had not made proper review and follow-up. The report recommended that billing offices ensure collection action at least every 90 days on delinquent accounts receivable, review bills for collection to determine alternative recovery methods, close uncollectible bills in accordance with existing procedures, and reconcile the quarterly listings of accounts receivable to billing offices' files. To comply with this recommendation, billing offices were directed by the Central Accounting Division to give written confirmation of the accuracy of accounts receivable and collection activities.

Audit Report No. 00-000-83-126 dated September 15, 1985 titled Debt Collection Efforts: Administrative Accounts Receivable, found that (a) the same debt collection problems identified in audit report No. 80-59; (b) weaknesses in implementing regulations and guidelines; and (c) lack of control and follow up of delinquencies by billing offices in coordination with the General Counsel's office. The report recommended compliance with regulations.

Report No. 87-02 dated April 28, 1987, titled Compliance with Office of Management and Budget Circular A-129 Guidelines on Managing Accounts Receivable stated that as of June 30, 1986, approximately \$5.5 million, or about 70 percent of A.I.D.'s outstanding receivables were more than one year past due. A.I.D. billing units did not comply with guidelines on servicing, following up, collecting and writing off outstanding receivables. Noncompliance was principally due to lack of sustained, systematic and coordinated efforts by the billing

units to monitor the receivables and shortages of personnel. The report recommended that the billing office take aggressive collection action, write off uncollectible accounts and allocate adequate staff to the billing offices.

On October 12, 1988 the Office of Financial Management responded to recommendation No. 1 of Audit Report No. 87-02. Their response was that all the billing offices have been instructed to take aggressive action to ensure compliance with prescribed guidelines on accounts receivables. Also FM has assigned the responsibilities for the accounts receivable to one employee in each billing office.

The recurring nature of the problems reported over the past eight years indicates a fundamental organizational weakness. The appointment of an employee at each billing office to take responsibility for accounts receivables is not a major improvement since each billing office has had an employee assigned this responsibility. Decentralization of the collection function in nine separate offices has not worked and efforts to correct weaknesses have been ineffective. We, therefore, conclude that the number of billing and collection offices be reduced and the function be upgraded in the office(s) given primary responsibility. Until accounts receivables are assigned adequate oversight the same problems will continue to reoccur.

Recommendation No. 1

The Assistant Administrator for Personnel and Financial Management reduce the number of billing and collection offices and make the billing and collection function a primary priority responsibility in the offices retaining the function.

The Office of Financial Management stated in their comments on the draft report that they plan to consolidate the nine billing and collection offices into three -- Payroll, the new Accounting Division and the Central Accounting Division. The rationale behind the consolidation appears reasonable. We have retained the recommendation pending final consolidation and documentation on how the billing and collection function will be prioritized and effectively managed in the offices retaining the function.

LISTING OF ACCOUNTS RECEIVABLE OUTSTANDING
BY BILLING OFFICE
AS OF SEPTEMBER 30, 1987

Outstanding Bills By Year

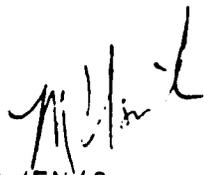
<u>Billing Office</u>	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>Prior</u>	<u>Total Amount</u>
33	\$ 5,289	\$ 261,647	\$ 2,179	\$ 337,092	\$ 606,207
40	-0-	-0-	-0-	41,063	41,063
41	-0-	30,168	-0-	1,585	31,753
42	128,662	57,690	42,688	58,170	287,210
43	1,775,886	737,895	118,045	176,031	2,807,857
44	613	-0-	2,945	-0-	3,558
46	146,943	34,835	65,959	105,453	353,190
47	-0-	-0-	-0-	9,440	9,440
50	<u>25,430</u>	<u>45,077</u>	<u>206,928</u>	<u>2,933,546*</u>	<u>3,210,981</u>
Total	<u>\$2,082,823</u> 28.33%	<u>\$1,167,312</u> 15.88%	<u>\$438,744</u> 5.97%	<u>\$3,662,380</u> 49.82%	<u>\$7,351,259</u> 100.00%

* \$2.6 million of this total was settled by the Justice Department in November 1987. The transaction was entered into the Accounts Receivable System in June 1988.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

DEC 21 1986

MEMORANDUM

TO: Mervin F. Bover, IG/PSA 

FROM: Michael Usnick, Controller, PFM/FN/C

SUBJECT: Draft Inspector General Report, Audit of A.I.D.'s
Accounts Receivable System

We have reviewed Recommendation No.1 of your draft audit report and we feel that it is necessary to maintain three billing offices.

We propose that three billing offices be maintained; (1) Payroll, (2) our new Accounting Division and (3) the Central Accounting Division. Payroll is recognized to be unique and requires separation due to the type of bills being issued. Our new Accounting Division will service the needs of AID/W by issuing the Bill of Collection and following up on collection. We feel that it is essential to retain this function at the operating level rather than transferring it to a central office that is removed from knowing the debtor and the reason for issuing the bill. We also feel we must maintain the billing office in the Central Accounting Division. This office services A.I.D. on a worldwide basis by accepting bills transferred for collection by both the domestic and overseas billing offices. It is essential we retain this function separate and distinct from routine billings and collection. This office must remain independent and be in a position to review the issuance of Bills of Collection and the subsequent follow-up without concern of a conflict of interest.

We feel we have provided sufficient reasoning to support maintaining three billing offices in A.I.D./W and we request that recommendation No. 1 reflect that we will consolidate the number of offices from nine to three. If you have any additional questions on this matter please contact John Richter on 663-2001.

APPENDIX 2

REPORT DISTRIBUTION

	<u>No. of Copies</u>
Assistant Administrator, Bureau for Personnel and Financial Management (AA/PFM)	5
Administrator, Office of the Administrator (A/A.I.D.)	1
Assistant Administrator, Bureau for Program and Policy Coordination (AA/PPC)	1
Assistant Administrator, Bureau for Management (AA/M)	2
Assistant Administrator, Bureau for External Affairs (AA/XA)	2
Office of Press Relations (XA/PR)	1
Office of Financial Management (PFM/FM)	5
Office of Legislative Affairs (LEG)	1
Office of the General Counsel (GC)	1
PPC/CDIE	3
IG	1
D/IG	1
RIG/A/Nairobi	1
RIG/A/Manila	1
RIG/A/Dakar	1
RIG/A/Tegucigalpa	1
RIG/A/Singapore	1
RIG/A/W	1
IG/PPO	2
IG/LC	1
AIG/I	1
IG/ADM/C&R	16