

Revenue & Accounts Receivable

Internal Audit Report

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**Carson City, Nevada**

**Submitted By**

Eide Bailly LLP

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## Executive Summary

Eide Bailly LLP (“We”, or “Our”) performed an independent assessment of Carson City’s (“City”) processes and procedures for collecting and recording City’s revenues and the associated accounts receivable (“AR”). This review also included identifying the City’s departments responsible for ensuring adequate internal controls in revenue capture and collection processes are in place. Key internal controls and primary control activities identified during this project are described in **Appendix A**.

During the assessment, we identified 2 (two) low to medium risk findings that represent process improvement opportunities and developed associated recommendations to minimize the risks related to recording cash receipts and respective accounts receivables at the end of a fiscal year.

## Background Information

Most of the cash receipts are approved and recorded by the City’s Treasury Department (“Treasury”) in Tyler Cashiering system utilizing the daily data batches received from various departments. The data batches received contain supporting documentation for cash receipts along with departmental manager approvals identified on batch reports. A smaller portion of the cash receipts, also known as general cash receipts (‘GCR’), for unusual cash receipts such as grant reimbursements and live check payments are recorded by the Finance Department that maintains the complete accounting records for the City.

Monthly, Treasury reconciles cash receipts to the monthly bank statements to ensure all receipts for the month have been posted in the City’s bank account. Additionally, Treasury reviews and verifies that cash receipts in the daily outstanding data batches have been recorded in the system timely, accurately, and completely. Daily, data batches from Tyler Cashiering are routed to Tyler Munis, the cities enterprise resource planning (ERP) software through a system workflow where the Finance Department records receipts in the City’s general ledger.

### The City’s Methodology:

Based on the modified cash basis of accounting that is typically used by governmental entities, the City records revenues when cash is received and expenses when cash is disbursed (e.g., refunds, reimbursements, expenses). At the end of every fiscal-year, the City records AR for the revenue receipts during the 60-day collection period after a fiscal year-end (i.e., July and August each year). For all cash receipts collected during the 60-day collection period, Treasury indicates a “fiscal year-end” designation (e.g., ‘FY20’ for Fiscal Year 2020) when the receipts are recorded in Tyler Cashiering to ensure that the Finance Department records the revenue and the associated AR in the correct accounting period in Munis (see **Table 2** below).

### Key Systems:

- “Munis” – ERP system by Tyler Technologies used by the City for financial accounting purposes.
- “Tyler Cashiering” – a system by Tyler Technologies that is used by Treasury to record all revenue receipts.

## Objective & Scope

The objective of this project was to assess business processes and procedures associated with revenue capture and collection and verify that the revenues and associated accounts receivables at year-end were recorded accurately and completely before fiscal year-end financial statements are prepared. Our audit procedures were designed to assess the accuracy and completeness of the revenues and AR recorded for Fiscal Year 2020 (FY20) focusing on the departments that typically process a high volume of revenue receipts including the following:

- Treasury Department
- Landfill Services
- Ambulance Services
- Finance Department

**Scope exclusion:** \* We evaluated Community Development processes and determined them to be out of scope for this internal audit as payments are obtained prior to services being rendered (prepaid). As such, the process to record AR is not needed. Additionally, the departments shown below in **Table 1** (Permit Center and Carson City Culture & Tourism Authority) follow the same prepaid process and were excluded from scope.

The following tables provide basic financial information on the total cash receipts processed, and AR recorded for the cash receipts collected and recorded during the 60-day collection period of July & August 2020 for fiscal year end 2020.

**Table 1 – Tyler Cashiering receipts processed in July & August 2020**

Department	Amount	Department	Amount
TREASURER RECEIPTS	\$6,985,402.18	HEALTH & HUMAN SERVICES	\$56,450.10
LANDFILL	\$868,775.87	ALTERNATIVE SENTENCING	\$29,171.50
FIRE DEPARTMENT	\$796,408.22	LIBRARY	\$23,254.25
PERMIT CENTER*	\$507,856.35	SHERIFF'S CIVIL DIVISION	\$23,058.00
CLERK-RECORDER	\$467,703.01	MARRIAGE BUREAU	\$19,050.36
CC CULTURE & TOURISM AUTHORITY*	\$340,688.34	JUVENILE PROBATION	\$6,320.57
FINES AND FEES	\$177,260.88	CEMETERY	\$3,155.00
UTILITIES DEVELOPMENT	\$172,778.40	PARKING ENFORCEMENT	\$2,894.50
PARKS AND RECREATION	\$91,940.80	JUVENILE COURT	\$2,090.50
DISTRICT COURT	\$80,962.42	HUMAN RESOURCES	\$506.25
SHERIFF'S BUSINESS OFFICE	\$76,609.28	JAC - CARSON CITY TRANSIT	\$320.00
<b>Grand Total</b>		<b>\$10,732,656.78**</b>	

**Source:** Treasury Department

**Table 2 – Tyler Cashiering receipts with 'FY20' designation**

Period	Amount
July 2020	\$5,565,485.29
August 2020	\$5,592,695.67
<b>Grand Total</b>	<b>\$11,158,180.96**</b>

**Source:** Finance & Accounting

**Note 1: \*\***Totals between the Table 1 and Table 2 do not and are not ordinarily expected to match due to timing of when the receipts are received and when the account receivables are recorded in the system of financial records.

**Table 3 – General Cash Receipts with 'FY20' designation**

Period	Amount
July 2020	\$1,938,953.20
August 2020	\$1,559,708.04
<b>Grand Total</b>	<b>\$3,498,661.24</b>

**Source:** Munis GCR & journal entry spreadsheet for July & August 2020

## Methodology

We held discussions with key personnel from the Treasury Department, Landfill Services, Ambulance Services, and Finance Department to gain an understanding of the monthly billing, revenue reconciliation, review processes and procedures, and processes and procedures for recording the City’s revenues and AR focusing on fiscal year-end accounting procedures. We also discussed and identified primary internal controls and control activities performed by the departments, as applicable, to ensure management has adequate internal controls in place as they relate to the City’s revenue capture and collection processes.

Our detailed audit procedures described below were designed and executed based on the City’s methodology to record revenue and AR for the individual departments that were in scope for this project as well as the associated key risks. The key risks were, but not limited to, completeness and accuracy of revenue and AR recorded during fiscal year-end accounting close process to ensure that the receipts collected during the 60-day collection period were recorded in the correct and respective accounting periods within Munis ERP (the financial system of records) prior to the preparation of year-end financial statements.

### We designed and performed the following procedures for [Tyler Cashiering receipts](#):

- **Data Analytics**: Obtained and analyzed the Tyler Cashiering report on the receipts processed in July and August 2020 to gain an understanding of and a concentration of transaction volumes by department during the 60-day collection period. See **Table 1** above.
- **Accuracy and Completeness Test**: Reviewed a sample of Tyler Cashiering data batches for a total of \$5.2 million, which represented approximately 52% of all Tyler Cashiering receipts during July and August 2020. We reviewed a sample of receipts along with underlying supporting documentation from various departments including Treasury, Landfill, and Ambulance Services and tested to ensure the receipts were recorded in correct accounting periods (i.e., FY20/FY21) in Munis ERP.
- **Completeness Test**: Inspected a sequential order of the Tyler Cashiering data batch numbers for the period, identified and reviewed a sample of potentially missing batch numbers to verify the related revenue receipts were properly recorded by verifying accounting records in Munis ERP. For the data batches with zero totals and negative totals, we verified supporting documentation including batch reports and ‘Munis’ accounting records as applicable.
- Evaluated the process and general control environment around creating and monitoring data batches in Tyler Cashiering.

### We designed and performed the following procedures for [general cash receipts \(‘GCR’\)](#):

- **Data Analytics, Accuracy and Completeness Test**: Generated a report from Munis ERP on GCR revenue receipts processed in July and August 2020 in order to identify transactions with ‘FY20’ designation. Then, we reconciled the report with the AR journal entry spreadsheets for the same period to verify that all receipts with ‘FY20’ designation were included in the FY20 year-end revenue and AR journal entries.
- **Accuracy and Completeness Test**: Reviewed a sample of GCR receipts from July and August 2020 with ‘FY20’ designation to verify they were properly recorded in FY20 accounting period in Munis ERP. As needed, we inspected the journal entry records in Munis ERP as well as the associated supporting documentation retained in the system.
- **Accuracy and Completeness Test**: Utilizing the Munis ERP report on GCR receipts processed in July and August 2020, we created a summary of transactions that didn’t have "FY20" designation to obtain a high-level understanding of the categories (types) of transactions. Then, we tested a sample of such transactions to verify they were recorded in proper period(s) including a sample of receipts with “FY21” designation to ensure they weren’t inadvertently recorded in FY20. This procedure was performed to

address the risk of inflation of revenue at FY20 year-end. As needed, we inspected the journal entry records in Munis ERP as well as the associated supporting documentation retained in the system.

## Testing Results

This section of the report provides a high-level description of the testing results and specific observations. The 2 (two) findings and the associated recommendations are described in detail in the *‘Findings and Recommendations’* section of the report as well as cross-referenced below.

- **Landfill Accounts Receivable (‘AR’):** AR for June 2020 invoice billing for Landfill Services in the amount of \$422,116.11 was incorrectly recorded in FY21, instead of FY20. Additionally, the receivables for the first 4 (four) months in FY21 were recorded in an incorrect AR account instead of the designated AR account for Landfill. See **Finding #1**.
- **Tyler Cashiering Data Batch Monitoring:** There is a lack of a close monitoring process and control over sequential order of data batch numbers created in the system to ensure completeness. See **Finding #2**.

## Conclusion

With the exception of the issues identified in this audit the City appears to have well-established process and procedures and internal controls in place for recording revenues and accounts receivable. We believe that evaluating and implementing recommendations provided in this report will increase accuracy and completeness of the recorded revenues and accounts receivable during the year-end close process performed by Finance & Accounting prior to annual financial statements being prepared.

## Findings & Recommendations

### Finding #1: Landfill Accounts Receivable June 2020

#### Risk Rating: **Medium**

During our review of the Tyler Cashiering receipts for Landfill Services, we noted that a year-end adjustment in July 2020 billing for June 2020 in the amount of \$422,116.11 was not performed to record the billing as a receivable and a revenue in FY20.

Additionally, it was noted that the Landfill billings for the first four months in FY21 (periods 1 - 4, July to October) were recorded to the incorrect General AR account 101-115000 whereas the correct AR account designated for Landfill Services is 101-115400. The detailed review of the Munis ERP accounting records and additional inquiries with the Finance Department confirmed that at the time of the audit there hadn’t been subsequent reclassification journal entries to correct the accounting records. This issue was primarily caused by the new system (Munis) limitations that prevented recording Landfill monthly invoice totals to the designated Landfill AR account. Auditors verified that the system issue was resolved in October 2020 by verifying that the monthly billings have been recorded to the correct AR account beginning November 2020.

#### Recommendation #1:

We recommend that the Finance Department develop and implement a methodology to ensure completeness and accuracy of accounts receivable and revenue recorded at year-end. Additionally, we recommend recording reclassification journal entries for Landfill billings for the first four months of FY21 to move the monthly billings from AR account 101-115000 to the correct Landfill AR account 101-115400 and ensure that the associated invoice payments are also recorded to the same account to ensure consistency and proper accounting.

#### Management Response:

*The Finance department will add a checklist for all year-end journal entries to our year-end closing process, to ensure completeness and accuracy of accounts receivables and revenue. Additionally, we will record a reclassifying journal entry for the Landfill billings for the first four months of FY21 (July to October) to correct the AR account from General AR 101-115000 to Landfill AR 101-115400, as well as ensure that the*

*associated payments are also recorded in the same account. The Journal Entry correction will be done before May 31, 2021.*

**Finding #2: Tyler Cashiering Data Batch Monitoring**

**Risk Rating: Low**

Review of the listing of Tyler Cashiering data batch numbers processed in July and August 2020 to verify completeness of the daily batches for FY20 accounting purposes identified a lack of an internal control over the sequential order and completeness of batch numbers created in the system. However, in our sample testing of *potentially* missing batch numbers, we didn't find any unrecorded receipts by inspecting accounting records in Munis ERP. Therefore, based on the test results and due to the fact that the Treasury Department has a process in place to ensure that outstanding daily batches containing revenue receipts are recorded timely in the system of records, this finding is rated 'low risk'.

**Recommendation #2:**

We recommend that the Treasury Department design and implement a monitoring mechanism over the total number and sequential order of the daily data batch numbers created in Tyler Cashiering to minimize the risk of missing or omitting any pending or closed batches that may contain revenue receipts.

**Management Response:**

*The Treasurer's Office, with the help of our IT Department, was able to expand our search criteria, which brought in all sequentially numbered batches. At that point we did locate one batch that was not in sequential order #7168. That batch had been dated for 12/28/21 and should have been 12/28/20. To eliminate the possibility for future batches to be opened with the incorrect date, we have set limitations in Tyler Cashiering. We will also run the batch number sequence report on a monthly basis to check for any batch that may not be in sequential order.*

## Appendix A – Internal Controls and Related Control Activities

We identified the following internal controls (IC) and/or management control activities as they relate to the City’s revenue capture and collection process:

- IC1.** Monthly, the City Treasurer reviews a reconciliation of all receipts recorded in Tyler Cashiering to the City’s bank account statements to ensure all recorded receipts during a given month have been deposited. In addition, the City Treasurer’s office will run a monthly batch report to verify all batch numbers are accounted for.
- IC2.** Monthly, as a compensating control activity, the Treasury Analyst sends a summary of monthly cash deposits to individual departments to verify the accuracy and completeness of the reported receipts through daily data batches. Note: We verified this process for Landfill and Ambulance Services.
- IC3.** Daily, the Treasury Analyst(s) review Tyler Cashiering for any outstanding batches to ensure all daily receipts have been recorded in the system.
- IC4.** Annually, the Finance Department reconciles the total amount of revenues collected and recorded for EMS billings, which represent approximately 85% of the Ambulance Services’ annual revenues. EMS receipts are recorded in Munis ERP monthly but are reconciled on annual basis during year-end accounting close process. (EMS – Emergency Medical Services).
- IC5.** Daily, the Ambulance Services Business Manager reviews Tyler Cashiering data batches for all cash receipts collected during the day and evidences a completion of his review with a date and a signature on the batch reports. The batch reports including the supporting receipts are prepared by another staff member who reports to the Business Manager evidencing proper segregation of duties. The same control is performed on a monthly basis for all receipts processed by the department.
- IC6.** Monthly, prior to sending customer invoices, the Landfill Services Accounting Technician reconciles monthly invoices to service tickets downloaded from ‘Compuweigh’, a third-party system that was designed to be used by landfill customers. The reconciliation is performed between monthly ‘Compuweigh’ system report and monthly customer invoices created in Munis ERP.



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