

Section 8 – Cash Receipts /Accounts Receivable

Overview

Most local governments collect revenue over the counter and through the mail from the general public in the form of cash, personal checks, credit and debit card transactions, or money orders. Many local governments are also offering online payment options and direct debit of customers' bank accounts for repetitive payments such as monthly utility bill payments. Collections may take place at multiple locations throughout the government's operations and be for a number of purposes including:

- Tax payments
- Utility payments
- Various fees and charges
- Court collections
- Permits and licenses
- Other service charges

It is necessary to establish an adequate system of controls to assure that all amounts owed to the government are collected, documented, recorded, and deposited to the bank accounts of the government entity, and to detect and deter error and fraud. Suitable controls should be established at each location where payments are received as well as at the centralized collections point.

Documentation for each transaction may be generated manually by the use of a pre-numbered receipt form or through the use of a cash register, computer, or other electronic device that will provide the customer with a validated receipt and detailed and/or summary information for the government to use for balancing, reconciliation and auditing purposes. At the end of the day, this documentation is typically reconciled to the total of the cash, checks, and other forms of payment received. Total daily receipts are either manually recorded to the accounting system, or uploaded automatically by way of an electronic interface between the cash receipting and the accounting systems.

Local governments often collect money for services rendered on a regular basis, such as utilities services. In this instance, the local government must have an established system of accounts to track the amounts owed and paid by the recipients of the services. Accounts receivable records, whether manual or computerized are an integral part of the internal control system for the payments received for the provision of services. The records also play an important role in the preparation of a local government's interim and annual financial statements, and ultimately in the assessment of the local government's financial condition.

Small Government Considerations

Many smaller governments face difficulties in areas such as separation of duties among a limited number of employees. Control over all receipts and receivables to detect and deter loss due to error and fraud is best established through strong management committed to this objective and the implementation of revenue control procedures and policies that are appropriate for the size and employee compliment of the government. More detailed guidance regarding internal control policies and procedures for the handling of receipts and accounts receivables can be obtained from consulting the local government's external auditors who rely on the local government's internal controls in conducting the annual audit and expressing an opinion on the local government's financial statements. Such guidance may be in the form of checklists or programs utilized by the auditors to evaluate internal controls. Organizations representing or including government finance practitioners also offer publications and resources on the topics of internal controls and fraud awareness.

Another consideration for smaller governments is the purchase and maintenance of computerized systems and payment receipting equipment. Governments need to review available alternatives and select the one that can best meet their control objectives given their budgetary and operating constraints, including their in-house information technology capability and resources. Some local governments are turning to external service providers that can run software applications remotely to lower the systems costs of maintenance, support and disaster recovery.

Common pitfalls often encountered by local governments in establishing appropriate controls over collections include the following:

- Failure of management to establish internal controls, evaluate the continued effectiveness of the controls established, or document the monitoring of adherence to established procedures.
- Lack of adequate separation of duties related to physical access to the payments and the recording of the payments. For example, placement of responsibilities for receipt of money, issuance of receipts, recording of collections in the accounting records, preparation of bank deposits, and reconciliation of collections of record to amounts deposited with one individual increases the possibility that errors or fraud would not be detected.
- Lack of documentation at the initial point of collections for payments received through the mail, or the handling of payments by multiple employees who perform different duties in the receipt and processing of payments prior to deposit. The custody of payments should be documented from the point of receipt to the point of deposit.
- More than one person operating out of a single cash register or drawer. This can preclude identification of the individual responsible for any shortages.

- Failure to utilize pre-numbered forms or computer-generated receipting alternatives to document payments. This documentation is necessary to establish that all receipts have been deposited and recorded in the accounting records.
- Failure to deposit receipts timely and/or properly secure collections prior to deposit.
- Failure to report missing collections to the proper authorities.
- Failure to record receipts and receivables in accordance with generally accepted accounting principles. To help assure the proper recording of receipts and receivables, local governments should consult the Uniform Accounting System Manual promulgated by the DFS.
- Lack of reconciliation of daily collections (cash, check, and credit card payments) with the records used to document the receipt of payments by someone not involved in the actual collection process. Such supervisory review is particularly essential for small governments with limited ability to separate the duties related to collections.
- Lack of adequate procedures for the follow-up of unpaid fees, including failure to assess late charges or other penalties, or to discontinue service, in accordance with Florida law or local ordinances. Policies and procedures should be established to assure that nonpayment of fees is promptly detected and addressed in accordance with the Florida law and the local government's ordinances and policies regarding delinquent accounts.
- Lack of cash collections policies for employees accepting payments defining the actions taken by management for cash short/over occurrences which provide a schedule of verbal or written reprimands including conditions of termination for larger dollar amounts or greater occurrences when daily cash reconciliations do not balance. No force balancing should be permitted.

Local governments should work with their external auditors to resolve any concerns related to the implementation of effective controls over cash receipts and accounts receivable, including the identification of compensating controls when the local government does not have sufficient staff to properly separate duties.

References

Florida Department of Financial Services – <http://myfloridacfo.com/aadir/localgov/>

GFOA Best Practices and Advisories – <http://www.gfoa.org/>

Revenue Collection Administration – A Guide for Smaller Governments. Allen, Ian J., GFOA (available for purchase from the GFOA at a minimal cost) - <http://www.gfoa.org/revenue-collection-administration-guide-smaller-governments>