



Instructor

Michael G. Battle, CIA, CGAP,
CRMA, MPA
LLA Advisory Services Manager

Course 202

Collections and Traffic Tickets - Best Practices

Description

This course is designed to present internal controls and best practices over collections, including control over traffic tickets, and is intended to help participants to understand the threats to ensuring accurate and complete collections.

Objectives

After this class participants will be able to:

- Describe what internal control is,
- Understand and implement strategies to control collections and protect against fraud, abuse and error, including maintaining control over traffic tickets

Who Will Benefit


- Elected Officials
- Appointed Officials
- Local Government Employees
- Local Government Auditors

About the Instructor

Mike Battle has been with the Louisiana Legislative Auditor(LLA) for over 22 years. During the first part of his career, he conducted performance audits of state agencies. Mike now serves as a Manager in Advisory Services (AS) where he works to provide fiscal and programmatic advice to locally elected officials and their staffs. Advisory Services focuses on providing assistance to ensure compliance, enhance effectiveness and efficiency, and to move entities towards a more fiscally healthy position. Mike has also served as LLA's Fiscal Notes Coordinator during Legislative Sessions since 1999.

Mike has a Master's in Public Administration from LSU and is a Certified Internal Auditor, Certified Government Auditing Professional, and is certified in Risk Management Assurance.

**Center for Local
Government Excellence**



**Collections
Best Practices**

Presented by:
Michael G. Battle, CIA, CGAP, CRMA, MPA
Advisory Services Manager

October 2019 Center for Local Government Excellence


Objective



**To provide participants with
best practices over
collections!!!**

October 2019 Center for Local Government Excellence 2


Agenda



- ✓ Internal Controls Refresher
- ✓ Risk Assessment: What could go wrong with Collections?
- ✓ Protecting Collections
- ✓ Controlling Traffic Ticket Processes

October 2019 Center for Local Government Excellence 3

Refresher: Internal Control-what is it?



A process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- * Effectiveness and efficiency of operations
- * Reliability of financial reporting
- * Compliance with applicable laws and regulations

COSO: Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control: Integrated Framework*

October 2019 Center for Local Government Excellence 4

Refresher: Now, in plain English.....



Internal Controls help to **“make sure things happen the way you want them to happen and bad or unexpected things don’t happen.”**

Deane Hennett,
Director of Internal Audit
Old Dominion University


Refresher: Very Important Concepts



The Process of Internal Control is geared to the achievement of objectives!

- * **Objectives** = things you want/need to happen (e.g., Provide utility services to paying customers)
- * **Risks** = what could occur to keep objectives from happening (e.g., Customers don't pay, but receive services; customers pay, but \$\$\$ doesn't make it to bank)
- * **Controls** = actions to make sure objectives happen (e.g., review past-due accounts and apply cut-off policy)

What Could Negatively Affect Collections?




Risk assessment

- * **What could go wrong?** Identify/analyze risks associated with achievement of objectives
- * Estimate the impact on achievement of objectives
- * Estimate the likelihood of occurrence
- * Now, decide what controls should be implemented to manage identified risks

October 2019 Center for Local Government Excellence 7


What Could Go Wrong?



- * Money is collected, but never deposited (Theft? Error?)
- * A/R is manipulated/adjusted and money is never fully collected (Error or favor for a friend? Billing adjustments? Fixing tickets?)
- * No cutoff policy or not implementing policy = no payment but services continue (no money for system maintenance; potential violation of Const Art VII Sec 14)
- * General Ledger and Sub ledger are not updated accurately (Incorrect financial statements and related financial data used to guide decisions)
- * "Fixing Tickets"
- * **Likelihood and Significance = Are these things likely to occur? If they do, will there be a critical impact? If Controls are weak...YES!!!**

October 2019 Center for Local Government Excellence 8

No Internal Controls = Big Problems



- * City Employee Accused of Stealing Money From Traffic Tickets and rental fees totaling \$8,000 over 6-month period
- * Employee steals auction funds of \$500,000 over 6-year period
- * Two employees steal more than \$200,000 in OMV customer payments over a 3-year period
- * Historical Society employee steals \$72,000 of Bingo collections over a 6-week period (18 missed deposits)
- * **Former FBI Agent steals more than \$136,000 in seized cash – uses for plastic surgery and cars ----- WOW!!!! Seized the money; took it later to be counted; and deposited money (segregation of duties)!!!**

October 2019 Center for Local Government Excellence 9

No Internal Controls = Big Problems

- * Money credited to the wrong account? Customers cut-off, but they paid – Furious – Public trust erodes!!!
- * Utility system can't be maintained b/c money is not being collected from all customers – municipality/customers can't use water!!!
- * Employees questioned about errors – was it theft; error; who is responsible – focus is not on provision of services -- Resources are affected !!!

October 2019 Center for Local Government Excellence 10

So, How Do We Protect Our Collections?



- * We must have **good policies & procedures** that address receiving, depositing, recording, and reconciling accounts.
- * Necessary to provide a clear understanding of:
 - ✓ **What** should be done?
 - ✓ **How** it should be done?
 - ✓ **Who** should do it?
 - ✓ **When** it should be done?

COLLECTIONS




Controls Over Collections: Insurance



- * Adequate **fidelity bond insurance** coverage should be purchased and maintained on officials and employees who collect monies and have access to monies.
- * A **fidelity bond** can provide insurance reimbursement on losses caused by the dishonest acts (e.g., theft) of bonded employees.
- * Coverage should be “Good and Sufficient”
- * Contact Insurance Agent/Company for guidance

October 2019 Center for Local Government Excellence 13

Controls Over Collections: Insurance



In determining an amount that is “**good and sufficient**,” the public entity should consider in consultation with its legal counsel and insurer issues such as:

- * **Risk** of theft, fraud, misappropriation and abuse
 - **Likelihood** of theft, fraud, misappropriation or abuse of public funds
 - **Impact** this would have on the financial position of the public entity to continue operations and make debt service payments
- * **Amount** of public funds being handled
- * **Internal Controls** that are in place to prevent and detect fraud and abuse


October 2019 Center for Local Government Excellence 14



• Controls Over Collections: Segregation of Duties

- * Good controls require management to adequately **segregate duties** to ensure that no single employee controls all facets of the cash collection process.
- * Less likely to commit and conceal fraud!!! Mistakes/errors more likely to be detected and corrected.
- * Employees receiving monies should not also be responsible for depositing the monies into the bank, recording the transactions in the accounting system (general ledger), and reconciling the related bank accounts.
- * If **segregation of duties** cannot be achieved, mitigating/compensating controls should be implemented by management to reduce the risk of errors and fraud (e.g., more extensive management review).
- * No one size fits all...have to think about your risk and controls to address that risk!

October 2019 Center for Local Government Excellence 15



Controls Over Collections: Ideal Example of Segregation of Duties

| | | |
|-------------------------------------|---|---|
| Employee A (Custody) | } | <ul style="list-style-type: none"> • Collects and secures money • Issues Receipt to customer • Limit access to cutoff initiation/process and billing • Documents Transfer of money to Employee B |
| Employee B (Recording) | } | <ul style="list-style-type: none"> • Post payments & adjustments (as approved by Mayor) to sub-ledger |
| Employee C (Deposit) | } | <ul style="list-style-type: none"> • Conducts daily balancing/closing • Prepares deposit slip (should be verified by Employee A) • Makes deposit |
| Employee B (Recording) | } | <ul style="list-style-type: none"> • Post payments and approved adjustments to General Ledger (after review of the validated deposit slip) |
| Employee D (Reconciling) | } | <ul style="list-style-type: none"> • Verifies validated deposit slip matches daily closing records • Reconciles General Ledger to bank statements • Reconciles General Ledger to Sub-Ledger (including actual adjustments to adjustments approved by Mayor & A/R balances) |

October 2019 Center for Local Government Excellence 16


Controls Over Collections: Not Ideal, But Will Help Guard Against Fraud, Abuse, & Error



| | |
|-----------------------------|---|
| Employee A (Custody) | <ul style="list-style-type: none"> Collects and secures money Issues receipt to customer Limit access to cutoff initiation/process and billing |
| Employee B (Recording) | <ul style="list-style-type: none"> Post payments & adjustments (as approved by Mayor) to sub-ledger after reviewing supporting documentation for reasonableness from Employee A |
| Employee A (Depositing) | <ul style="list-style-type: none"> Conducts daily balancing/closing and prepares deposit slip (should be verified by Employee B) Makes Deposit |
| Employee B (Reconciling) | <ul style="list-style-type: none"> Verifies validated deposit slip matches daily closing records Post payments and approved adjustments to the general ledger Reconciles deposits in general ledger to bank statements |
| Employee A (Reconciling) | <ul style="list-style-type: none"> Reconciles General Ledger to Sub-Ledger (including actual adjustments to adjustments approved by the Mayor and A/R balances); Also, should review bank recs and billing reports for reasonableness |

October 2019 Center for Local Government Excellence 17


Checking Up on the Back End



- * Important:** Position independent of collections should conduct regular, unannounced review of **receipt books to deposit slips to accounting records to bank statements to documented reconciliations.**
- * Tell your staff that such review will occur and exceptions will be resolved ---- and problems will be dealt with/resolved!
- * Make sure all in the organization know that control processes are there to protect your employees and the public's assets!

October 2019 Center for Local Government Excellence 18

Controls Over Collections: Accountability, Accountability, Accountability



- * There should be a central point of collection (e.g., municipal fines and utility collections done at city hall).
- * A clear trail of **accountability should be maintained from the point of receipt to deposit.**
- * Monies received through the mail should be listed in detail in a daily log, and the items should be immediately endorsed for deposit.
- * Monies transferred between employees must be counted and verified by both employees and be documented.
- * Each collection location should display a sign/notice that reminds customers to obtain a receipt for their payment.

October 2019 Center for Local Government Excellence 19

Controls Over Collections: Accountability, Accountability, Accountability

- * **Pre-numbered receipt forms** should be completed for all monies (e.g., cash, checks, and credit cards) received and be issued in numerical sequence.
- * One receipt copy is given to the customer, one copy is to be used in balancing/reconciling collections with bank deposits (and be kept as part of deposit documentation)

October 2019 Center for Local Government Excellence 20

Controls Over Collections: Accountability, Accountability, Accountability

- * Upon receipt, customer **payments should be posted to receivable accounts in the computer system or manual records (subsidiary ledger).**
- * Any **adjustments** to customer account balances must be documented and approved in writing by the chief executive (all in accordance with policy and procedures).
- * At the end of the work day, a **customer collection report and a report of adjustments** should be generated from the system for use in the daily balancing process.
- * The **daily balancing process** includes counting all monies on-hand and reconciling, in writing, to the receipt copies, mail log, and to the system generated daily collection and adjustment reports. Any shortage/overage differences should be investigated and resolved timely. This daily collection documentation is to be given to an appropriate employee to review and prepare the daily bank deposit (**if person conducting daily balancing is preparing bank deposit, an independent person/source should review the balancing documentation to the deposit slip for verification purposes).**

October 2019

Center for Local Government Excellence

21

Controls Over Collections: Some more Strategies to Protect Collections

- * Restrict the number of employees who can receive and have access to money
- * Prohibit more than one employee from working out of the same cash drawer.
- * Establish a daily cash balance for the cash drawers to be balanced to each day.
- * Install locks on cash drawers and require that they be locked when not in use. Keys should be adequately secured.
- * Require the safe/vault to be locked when not in use. The combination should be secured under lock at all times.
- * Require two people to be present when the safe is opened and being accessed.

October 2019

Center for Local Government Excellence

22

Controls Over Collections: Some more Strategies to Protect Collections

- * Require the completion of a log when the safe is opened. This log should document who opens the safe, who witnesses the safe being opened, the reason for opening the safe, the date and time that the safe is opened, and the date and time the safe is verified as locked by those present.
- * Conduct surprise cash counts at all collection locations. Staff should be informed that such surprise/unannounced counts will be conducted as a normal business practice.
- * Install cameras in all collection locations.
- * Cut-off policy is needed and should be enforced
- * Policy should establish process for collecting delinquent AR
- * Must actively try and collect money owed to you (e.g. payment plans; collection agency – see R.S. 13:1898 and 32:393 for tickets)

October 2019

Center for Local Government Excellence

23

Controls Over Collections: Some more Strategies to Protect Collections




- * The listing of unpaid accounts should be reviewed monthly and aggressive collection efforts should be made on all delinquent accounts ("active" and "inactive" customers), including legal action if necessary.
- * Staff should be cross-trained on how to fully utilize the collection/billing software capabilities and how to interpret reports that can be generated on active and inactive accounts.
- * The chief executive should ensure that the computer systems (e.g., collection/billing system and accounting system) are properly functioning and backed up daily.

October 2019


Center for Local Government Excellence

24



DEPOSITING COLLECTIONS


October 2019 Center for Local Government Excellence 25



Controls Over Depositing Collections


- * All monies collected should be deposited intact **daily whenever practicable**.
- * After the daily balancing process is complete, an appropriate employee should be designated to receive the monies and all supporting collection documentation for review and to prepare the bank deposit form/slip (**if person conducting daily balancing is preparing bank deposit, an independent person/source should review the balancing documentation to the deposit slip for verification purposes**).
- * The bank validated deposit receipt should be returned and compared to the daily closing records (e.g., original deposit slip; receipts) to ensure that all monies were deposited intact. Any differences should be immediately investigated and resolved.
- * The daily collection and deposit documentation should be submitted to the appropriate employees for recording in the accounting system and for reconciling to the appropriate ledgers and the monthly bank statements.

October 2019 Center for Local Government Excellence 26



RECORDING AND RECONCILING

October 2019 Center for Local Government Excellence 27



Controls Over Recording and Reconciling

- * The daily deposit transactions, including authorized adjustments to customer account balances, should be **recorded** in the accounting system (general ledger) timely by an employee who does not perform collecting and depositing functions.
- * The collection and deposit related documentation should be reviewed for completeness and accuracy prior to recording the entries into the accounting system. Any differences should be investigated and resolved timely.

October 2019 Center for Local Government Excellence 28

Controls Over Recording and Reconciling



- * Each month, an appropriate employee should reconcile the bank statements, which includes reconciling the daily deposits (i.e., collections) shown on the bank statements to the individual deposit transactions that were recorded in the general ledger. Any differences should be investigated and resolved timely.
- * Each month, an appropriate employee should reconcile the total customer account balances in the subsidiary ledger (e.g., collection/billing system) to the related customer accounts receivable balances in the general ledger. Any difference should be investigated and resolved timely.
- * The completeness of collections recorded, including electronic transfers, should be reviewed periodically for each revenue source and agency fund addition (e.g. periodic confirmation with outside parties) and be reconciled by someone who has no collecting and depositing duties.

October 2019

Center for Local Government Excellence

29

As we Discussed Before: Checking Up on the Back End

- * **Important:** Position independent of collections should conduct regular, unannounced review of **receipt books to deposit slips to accounting records to bank statements to documented reconciliations.**
- * Tell your staff that such review will occur and exceptions will be resolved ---- and problems will be dealt with/resolved!
- * Make sure all in the organization know that control processes are there to protect your employees and the public's assets!

October 2019


Center for Local Government Excellence

30



Traffic Tickets

October 2019 Center for Local Government Excellence 31




Strategies to Control Traffic Tickets

- ✓ **Develop & Implement Policies and Procedures to guide the entire ticket process!!!!**
- ✓ **Assign personnel to manage and maintain documentation.** We advise documenting (at a minimum) ticket #, date issued, issuing Officer, violation type, and final disposition (e.g., fine paid).
- ✓ **Secure the inventory of blank ticket books.**
- ✓ **Designated employee(s) should be responsible for issuing ticket books (should be done in numerical sequence and officers should acknowledge in writing that they have received a book).**

October 2019 Center for Local Government Excellence 32


Strategies to Control Traffic Tickets



- ✓ **Require your Officers to issue and return citations in sequential order; Officers should return all spoiled/voided citations as well (La. R.S. 32:398.2);**
- ✓ **Do not issue additional ticket books until officer turns in all citations from previous ticket book.**
- ✓ **Officers should not collect \$\$\$ in the field (collections occur at City Hall).**
Also, actively try and collect money owed to you – refer to R.S. 13:1898 and 32:393.

October 2019 Center for Local Government Excellence 33

Strategies to Control Traffic Ticket Collections



- ✓ **Police Chief must communicate with the Court (e.g., Mayor's Court, City Court) to ensure that tickets get to Court timely and his/her Department is aware of fine status and final disposition.**
- ✓ **If citations are reduced or dismissed out of court, they may only be dismissed by the proper prosecutorial authority (i.e., Mayor, District Attorney) and the reduction or dismissal must be included in the minutes/records of the court (if payment is received, include in the minutes of the court).**
- ✓ **Chief of Police should maintain records from issuance to final disposition per La. R.S. 32:398.1 and 398.2 to help ensure fines are collected; appropriate action is taken for non payment; and funds are not misappropriated.**

October 2019 Center for Local Government Excellence 34

Strategies to Control Traffic Ticket Collections



- ✓ Designated Police Department employee (e.g., Ticket Clerk) should review records monthly and ensure that ticket/citations disposition is clearly accounted for (from beginning to end). Such review should address what should have been collected; what was recorded as being collected; and what is presented in the bank statements.
- ✓ Municipal Clerk is to perform quarterly audit of traffic citations per La. R.S. 32:398.3
 - ❖ This audit serves as an objective review of all documents involved in the process
 - ❖ Clerk should request random time periods and review from book issuance to final disposition (e.g., dismissal, reduction, amount paid)
 - ❖ Clerk should review final payments against fine schedule
 - ❖ Full cooperation b/w the Police Department, Court, and Clerk must exist...it is the law!
 - ❖ Any exceptions; anything that looks strange or can't be explained should be questioned and resolved
 - ❖ Clerk should meet with Chief of Police, Mayor, and any other critical staff/officials involved in the process(s) to discuss issues identified during the audit
 - ❖ Discussion should focus on identified successes, problems, and resolutions!
- ✓ Don't forget to report to DPS per La. R.S. 32:393!

October 2019

Center for Local Government Excellence

35

Final Note:

**This is strong internal control!!!
"Tone at the Top"**



- ✓ Treat the protection of revenues seriously! Assess Risk and Implement Control Strategies! Remember, "one size does not fit all."
- ✓ Announce to all in the organization that Control is priority and will be taken very seriously! It is there to protect them and the people's assets!
- ✓ Formally and consistently review collections, recordings, and deposits. Identify exceptions; investigate all exceptions; follow up on them; resolve exceptions; take swift/stern action with fraud, abuse and waste (and correct errors)
- ✓ Use these identified exceptions/problems to train your staff.
- ✓ If you are working with another government agency regarding collections, communicate and coordinate with them to develop best system for both of you.

October 2019

Center for Local Government Excellence

36

A slide titled "Contact Info" with a blue header and a light gray background. The text is centered and includes the name, title, phone number, and email address of Michael G. Battle.

Contact Info

Michael G. Battle, CIA, CGAP, CRMA, MPA
Advisory Services Manager
(225) 339-3858
mbattle@lla.la.gov

October 2019 Center for Local Government Excellence 37