UCIRVINE | INTERNAL AUDIT SERVICES

Financial Services Billing

Internal Audit Report No. I2020-102

June 3, 2021

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June 3, 2021

LESLIE WOLBERS
DIRECTOR OF FINANCIAL SERVICES
ACCOUNTING AND FISCAL SERVICES

RE: Financial Services Billing Audit
Report No. I2020-102

Internal Audit Services has completed the review of Financial Services Billing and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Sincerely,

Mike Bathke

Mike Bathke
Director

Attachment

C: Audit Committee
    Sharon Arnold, Business Systems Analyst – Financial Services
    Dianne Bean, Assistant Director for Payment Services – Financial Services
    Julie Magana, Campus Billing and Collections Manager – Financial Services
    Barry Oh, Interim Assistant Vice Chancellor/Controller – Accounting and Fiscal Services
    Carmela Rodriguez, Manager for Financial Analysis – Financial Services

I.   MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2019-2020 audit plan, Internal Audit Services (IAS) reviewed the controls and processes in place for the student and non-student billing, monitoring, and collecting of related accounts receivables, including compliance with University policies and procedures. IAS tested three categories of receivables: Accounts Receivable and Collections (ARC) for students and non-students and the Student Billing system (SBS). Based on the audit work performed, some internal controls need improvement and Campus Financial Services should strengthen them to minimize risks, ensure compliance with University policies and procedures, and/or support best business practices. IAS notes the following observations.

Outstanding Balances – IAS found that of the 53 total receivables tested, 33 selections remained unpaid. These observation details are discussed in section V.1.

Contract Terms and Conditions – For ARC student receivables, IAS found a lack of a consistently applied uniform set of payment terms and conditions for departments who contracted with an outside party. These observation details are discussed in section V.2.

Partial Payment – Within the ARC student receivables, IAS found that partial payment of an invoice was missed and that the student was never billed for the unpaid balance. These observation details are discussed in section V.3.

Late Fees –For ARC non-student receivables, IAS found that late fees are often not included in an invoice's final payment amount. These observation details are discussed in section V.4.

Unpaid Student Balances – For SBS receivables, IAS found invoices that remain unpaid because students did not return to the University to complete their degree program. These observation details are discussed in section V.5.

Paid Flag – With the SBS receivables samples, IAS found transactions tagged with a paid flag even though the credit card payment was denied or the check had bounced. These observation details are discussed in section V.6.

Receivables Monitoring and Write-offs – IAS found that campus practices for the review and write-off of delinquent SBS receivables is not in compliance with University receivables collection policy. These observation details are discussed in section V.7.

Department Billing and Collections Controls and Practices – IAS found that there was lack of consistency in invoicing practices for ARC non-student billable activities and systems for tracking outstanding receivables. These observation details are discussed in section V.8.

Relevant Policies and Procedures – IAS found that currently published policies and procedures are outdated and are in need of revision. These observation details are discussed in section V.9.

Creditworthiness – IAS found that there is currently no vetting process in place to assess the creditworthiness of potential customers before granting credit to outside organizations. These observation details are discussed in section V.10.

II.   BACKGROUND

Financial Services provides services, support, and resources for students, their families, and the campus in the areas of billing, payments, disbursements, and campus-based loans. They deliver these services through the following departments: Campus Billing and Collections and Payment Services. The Director of Financial Services reports to the Assistant Vice Chancellor and Controller.

Their goal is to provide responsive service and support campus financial activities with simple, efficient, and effective processes to assure that UCI resources are maximized and that funds are managed properly.

Financial Services administers the Accounts Receivable and Collections (ARC) and the Student Billing (SBS) systems and manages related accounts receivable administrative processes including billing, account delinquency notifications, collections, refunds, and reconciliation of the systems with the campus general ledger. Both the ARC and SBS systems were developed to administer receivable accounts of students and other parties who had been billed by the campus for various fees and charges associated with the provision of campus services.

There are approximately 11 separate systems to account for fees related to services. These include the health center, housing, course and material, eTech, library, tutoring system, summer program, and other services that feed into SBS. Over 40 years old, the feeder systems and SBS are becoming increasingly difficult to maintain and need to be upgraded. The current billing process is manual with no data warehouse for student billing data; currently, a programmer is used to obtain necessary data and reports. To replace SBS, the Banner system was being developed to consolidate all student financial transactions and help improve the efficiency, auditability, and segregation of duties facets.

However, there has been a delay in its implementation due to pending litigation. In anticipation of the new Banner system, a moratorium was initiated on changes to SBS. Financial Services is aware of persistently occurring issues that result from aging systems and maintains a self-identified list of risks resulting from these issues. Some issues are hard to quantify, but to the extent feasible, there is an effort to mitigate associated risks.

Additionally, effective January 1, 2020, California Assembly Bill AB 1313 was enacted prohibiting any higher education institution from withholding transcripts or diplomas for the purposes of debt collections. This, historically, was the primary collection tool used by all UC and California State University (CSU) campuses for students who have left the university with outstanding debt.

Financial Services is also responsible for the Campus Billing System Online (CBSO), a system used by University departments for billing for goods and services and pursuing collections. Financial Services recharges $2.50 per invoice for billing and collection services.

III. PURPOSE, SCOPE, AND OBJECTIVES

The purpose of the audit was to determine and assess the controls and practices over the student and non-student billing, monitoring, and collection of related accounts receivables.

The scope focused on invoices billed that ranged in age from 0-30 days old to more than four years old.

The audit included the following objectives.

1. Review and determine relevance of policies and procedures for student and non-student billing, collection, and write-off processes;

2. Determine whether the creditworthiness of customers is being considered;

3. Verify the timeliness and accuracy of billing and collection for services rendered;

4. Verify the effectiveness of the collection efforts and assessment of potential write-offs; and

5. Determine and evaluate departmental billing and receivable management controls and practices in place.

IV. CONCLUSION

In general, departmental controls and processes do not appear to be functioning as intended. Internal controls and processes could be enhanced in the areas of billing, collections, and monitoring of receivables and in policies and procedures.

Observation details and recommendations were discussed with management who formulated action plans to address the issues. IAS presents these details below.

V.   OBSERVATIONS AND MANAGEMENT ACTION PLANS

1.   Billing and Collections - Outstanding Balances

Background

IAS discussed with Financial Services management and staff the billing, collection, and monitoring processes of outstanding receivables. IAS performed sample testing to review the timeliness and accuracy of billing and collections for services rendered. IAS obtained and reviewed accounts receivable aging reports, invoices, communications regarding collections, payment details, and other supporting documentation. IAS tested three categories of receivables: ARC student, ARC non-student, and SBS.

Out of the 53 total ARC student, ARC non-student, and SBS receivables tested, 33 selections totaling approximately $233,000 remain unpaid.

Observation

Follow-up efforts to collect outstanding accounts receivable balances need to be strengthened. Without consistent and timely follow-up, the probability of full collection of outstanding balances are significantly reduced and may have to be written off, resulting in a loss of revenue.

Management Action Plan

We concur.

It is the understanding of current Financial Services management that there has been no non-student receivables collections activity, with the exception of Third Party Contracts and some government agencies, since the Kuali Financial System (KFS) implementation in 2014. In 2015, the former Director of Financial Services was assigned full-time to the Student Information System (SIS) project and the Associate Director passed away, leaving a deficit in knowledge transfer and staffing in the department for hands-on review and collections of these accounts. In 2016, the current Director was assigned to all department functions previously performed by the former Director and the Associate Director, including multiple roles on the SIS project through January 2019. Both Moran and Deloitte, two outside consultants, have identified the need for additional staffing to run daily operations for Financial Services.

We have submitted requests for additional Billing and Collections staff since 2016. We have identified more than 136 systems risks to financial integrity, billing, and receivables management that require constant manual intervention to correct. Legacy system dysfunctional coding and design cause these obstacles. The configuration of Banner mitigated all of these risks, but presently, there is no plan to implement the enterprise resource planning (ERP) system in the near

future. Financial Services will have to mitigate the majority of billing and collections risks through very labor intensive, manual workarounds. Persistent legacy systems issues during the coronavirus disease (COVID) crisis have required Financial Services staff to make thousands of manual account adjustments for Housing's and Financial Aid's Coronavirus Aid, Relief, and Economic Security (CARES) Act disbursements.

The completion of this observation is dependent on additional staff funding approval.

Expected completion date: February 28, 2022.

2. ARC Student Receivables - Contract Terms and Conditions

Background

Consisting mainly of financial aid, third-party billing, and library fee receivables, ARC student receivables totaled $3.2 million as of March 1, 2020. Of this amount, $899,000 (approximately 28%) had been outstanding for 1-30 days and $565,000 (approximately 16%) had been outstanding for six months to four years. Out of 19 selections tested, 12 remain unpaid at the time of audit performance.

Observation

For one selection involving the sponsor paying the tuition and fees of an international student, the invoice was billed relatively late for the term. This selection took approximately four months to be fully paid. According to IAS's discussion with management, international payments sometimes take four to six months to be received, in large part due to the same entity having differing and inconsistent contract terms and conditions with other UCI departments. Each department put forth their own payment terms with the entity, which has led to delays in receiving payment.

In order to improve the timeliness of receivable collections, all departments who contract with an outside party should apply a uniform set of payment terms and conditions. In addition, contracts with outside parties who repeatedly violate payment terms and conditions should be brought to management's attention so that appropriate discussions can take place to resolve the situation.

Management Action Plan

We concur.

A. We will prepare a single Third Party Contract that all University departments will use and submit to the General Counsel's office for review and approval. Once approved, we will create policies and procedures to train campus users.

B. Concurrently we will determine if there remains a long term need for issuing Third Party Contracts as we continue to expand our payment options.

Expected completion date: September 30, 2021.

3.   ARC Student Receivables – Partial Payments

Observation

For one selection, a partial payment was received with the unpaid amount being written off at the end of FY 2019-20. Because there are two different billing systems (SBS and CBSO) involved that do not feed information to each other, it is possible that the partial payment of the invoice was missed and that the student was never billed for the unpaid balance.

Management should improve follow-up efforts for partial payment. However, to allow for a higher likelihood of full payment, management should reconsider the allowance of partial cancellations as well as revising Section 701-14: Procedure for Accounts Receivable – University Invoice. Section 701-14 states, "The department issuing the University Invoice also prepares any cancellation of invoice that may be necessary in CBSO to cancel part or the entire original amount of a single invoice."

Management Action Plan

We concur.

We will review and revise both Section 701-14 and the accompanying procedures to add a manual review of cancellations/reversals.

Expected completion date: July 31, 2021.

4.   ARC Non-Student Receivables – Late Fees

Background

Consisting mainly of sundry debtor and returned check receivables, ARC non-student receivables totaled $3.9 million as of March 1, 2020. Of this amount, $1.5 million (approximately 40%) had been outstanding for 1-30 days and $565,000 (approximately 15%) had been outstanding for six months to four years. Out of 18 selections tested, only nine were eventually paid.

Observation

For three selections, late fees had been incurred, in addition to the original invoice amount, due to the delay in payment receipt. However, the entities only paid the original invoice amount and chose not to pay the late fees.

According to IAS's discussion with management, universities purchasing goods and services from UCI take longer to pay the invoiced amount, which often leads to the accumulation of monthly late fees. The late fees are often not included with the final invoice payment. The amount paid is first applied to the original invoice amount and then to any outstanding amounts such as late fees. Late fees are often waived because there is an unofficial professional courtesy to not pursue these payments from fellow universities.

Management should consider communicating with educational institutions regarding a resolution for delays in payment received and associated late fees incurred, but not being paid.

Management Action Plan

We concur.

We will add late fee payment requirements to the sales and services agreements. Failure to pay accrued late fees will trigger a manual notification to the campus department to stop providing sales or services until late fees are paid. Currently, there are no system options for automating the placement and release of holds.

Expected completion date: August 31, 2021.

5.   SBS Receivables – Unpaid Student Balances

Background

Consisting mainly of financial aid, PACE payment plan, and graduate student aid receivables, SBS student receivables totaled $4.9 million as of March 1, 2020. Of this amount, $1.2 million (approximately 25%) had been outstanding for 1-30 days. $2.1 million (approximately 43%) had been outstanding for 31-60 days and $9,000 (approximately 0.2%) had been outstanding for than more than two years. Out of 16 selections tested, only four were eventually paid.

Observation

Eight selections, totaling approximately $27,000, remain unpaid due to students not returning back to the University to continue their degree.

In order to obtain receipt of unpaid balances, management should work with the Registrar's Office to obtain the most recent relevant information to contact the student.

Management Action Plan

We concur.

We will work with the Registrar's Office to update policies and procedures to ensure student contact information is updated and kept current to facilitate collections.

Expected completion date: July 31, 2021.

6. **SBS Receivables – Paid Flag**

Observation

One selection remains unpaid due to a fraudulent payment. According to management, if a student pays before the fee deadline, the account is tagged with a paid flag that does not reset to unpaid even if the credit card is denied or the check bounces. This same situation applies to any adjustments or reversals of payments, including financial aid. This may affect the paid headcount reported each term.

The Registrar's Office programmatically disenrolls students from classes who have not paid their balance in full at the fee deadline based on the status of the paid flag and not on their actual balance due. At the request of Financial Services, the Registrar's Office was able to force a manual disenrollment of this student, but it was a difficult process to do in the legacy system.

Management identifies fraudulent payments in a timely manner in collaboration with the university's bank and ACH/credit card processor. If this identification occurs after the paid flag is set, the legacy system will block the student's account from disenrollment and they continue to attend the term without payment. Management should consider a technologically feasible workaround to disable the paid flag or change the criteria by which it is set and released.

Management Action Plan

We concur.

There is no system solution or manual workaround to mitigate this problem other than the implementation of a new student system. The "paid flag" is used by other departments' processes that could disrupt integrations between siloed systems. This may be a higher risk to the campus than the amount of lost collections.

Completion is dependent on a new Enterprise Student Management System (ESMS) implementation.

In the meantime, potentially, OIT could run a report to identify accounts with the paid flag that still have a balance due. Financial Services could then go into the accounts and remove the paid flag manually. However, Financial Services and Registrar OIT have to verify this process. If feasible, Financial Services could run this process daily and make manual adjustments during the quarterly registration cycles.

Expected completion date: February 28, 2022.

7. **Receivables Monitoring and Write-offs**

   Background

   In June 2020, the Chief Financial Officer and Vice Chancellor (CFO/VC), Division of Finance and Administration (DFA), authorized the FY 2019-20 write-off of uncollectible accounts proposed by Accounting and Fiscal Services. There was $11.4 million in outstanding accounts receivables, of which approximately $1.9 million were eligible for write-off. Of this eligible amount, $1.2 million is being excluded from write-off to review and assess the potential for collection. $731,000 was being written off because the transactions are greater than four years old and past the statute of limitations for collection in California or deemed uncollectible.

   As of March 1, 2020, ARC student receivables totaled $3.2 million and ARC non-student receivables totaled $3.9 million. Of these amounts, $874,000 (approximately 27%) and $1.3 million (approximately 32%) respectively, had been outstanding for than more than four years.

   IAS selected a judgmental sample of 33 invoices over four years old to evaluate the effectiveness of the collection efforts and assessment of potential write-offs. IAS obtained and reviewed aging reports, invoices, communications regarding collections, and other supporting documentation.

   Out of 33 total ARC receivable selections tested, two were fully paid and two were partially paid. Of the 29 that remain unpaid at the time of audit performance, 15 selections (totaling nearly $1.2 million) have been excluded from being written off at the end of FY 2019-20. They have been or will be resubmitted as part of ongoing efforts to review and potentially collect.

   Fourteen unpaid selections (totaling $54,000) were part of $731,000 amount written off at the end of FY 2019-20.

Observation

One selection remained unpaid because the customer believed that the billed amount was unjustified even though the daycare policy required parents give one month's notice prior to withdrawing their child. The unpaid amount was written off at the end of FY 2019-20.

All 14 selections are associated with providing a service to an educational institution:

- For 12 selections, due to delays in payment receipt, late fees had been added to the original invoiced amounts. Both the original invoiced amounts and associated late fees ultimately remained unpaid and had to be written off at the end of FY 2019-20.

- For two selections, the entities gave themselves an unjustified discount on the invoiced amount even though the standard invoice payment terms are net 30, meaning the owed amount was payable within 30 days. Payment terms did not indicate the availability of a discount. The unpaid discount amount was written off at the end of FY 2019-20.

Campus practices for the review and write-off of delinquent receivables is not in compliance with University receivables collection policy. According to Section 701-14: Procedure for Accounts Receivable – University Invoice, unpaid invoices between 120 days and one year past due will be reviewed for write-off and charged back to the departmental account credited at invoice creation. Additionally, at the discretion of Campus Billing Services, written-off accounts over $25 will be sent to an outside agency for collection when efforts by campus collectors have proven unsuccessful.

Management should continue efforts to review old unpaid balances for potential collection. However, management has communicated that Financial Services currently does not have the staffing resources to manage adequately billing and collections in a timely manner nor to ensure that past due unpaid invoices between 120 days and one year are reviewed, written-off, and sent to outside collection agencies for collection. Furthermore, claims issued to governmental agencies are not being billed and collected in a timely manner. This has led to lost revenue and the need for write-offs.

It is imperative that Financial Services monitors outstanding balances in a proactive and regular basis to allow for the identification of chronically late payments, underpayments, and non-payments. This process would help with the prevention of excessive aged receivables and bad debt write-offs. Delinquent accounts deemed to be uncollectible should be reviewed and written-off in a timely manner and referred to outside collection agencies in accordance with University policy.

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With the absence of any system changes in the near future and the technological inadequacies of the current system, Financial Services and management should explore viable options to mitigate the lack of consistent and timely follow-up of delinquent receivables. In collaboration with management, additional staffing resources should be identified to assist with the monitoring and collections endeavors of Financial Services.

Management Action Plan

We concur.

Steps we have taken to correct these long-term problems:

- Prior to fiscal year-end (FYE) 2018-19, General Accounting would post a bad debt reserve for closing purposes, immediately reversing it as of July 1 of the next fiscal year. This left Financial Services nowhere to write-off accounts that were beyond the statutes for timely collections in the State of California. At the request of Financial Services management, the reserve was reinstated for FYE 2018-19 and bad debt write-offs were addressed for the first time in many years.

- Prior to May 2019, SBS student receivables were written off automatically by a system program that did not allow for prior review. In May 2019, at the request of the CFO/VC, this practice was stopped in order to gain more visibility to past due receivables. This in turn has elevated the amounts due from students, but with the action plans identified in Observation 6 - Paid Flag above, we would be able to collect more balances that are outstanding.

- We have implemented a Veterans Services task force that meets biweekly to review uncollected individual accounts because of certification errors and/or incorrect billing. We have been successful in collecting on the Veterans Administration's portion due on old debt. Financial Services has taken over the billing of these accounts in the various government portals, ensuring that UCI internal CBSO invoices match what is billed to government agencies by departments who are billing through CBSO.

- We have also established an online upload to address the Perkins loan closeouts to maintain compliance in a timely manner with Federal regulations.

Next steps:

A. In 2017 and 2018 a review of all department tasks was completed to determine what functions were not being performed. We are starting the same review again to determine what functions are highest priority and which ones can be delayed to restart collections activities by type of receivables based on current staffing.

B. We will formally document functional requirements for changes to the ARC receivables system in order to strategically group receivables and to develop individual processes for each group.

C. We will review and update as necessary functional requirements to assign accounts to collection agencies.

Expected completion date: December 31, 2021.

8. **Department Billing and Collections Controls and Practices**

Background

Financial Services is responsible for the Campus Billing System Online (CBSO), a system used by University departments to invoice for goods and services. There are campus units that independently invoice outside of CBSO, manage receivables, and receive payment that is deposited using the Campus Online Deposits (COD) system.

In order to determine the nature of deposits made and that billing and receivable management controls and practices in place, IAS selected a judgmental sample of eight campus units who had deposit activity in the calendar years of 2017, 2018, and 2019, but were not using CBSO. IAS conducted interviews with responsible personnel to evaluate whether invoicing and monitoring procedures were in place and functioning as intended regarding the tracking of open receivables and the identification of delinquent and non-payers. IAS also asked personnel about the awareness of relevant University policies and procedures Sections 701-07, 701-14, and 701-16.

Observation

Of the eight units reviewed with revenue-related deposit activity, the operational controls and practices related to billing and receivables monitoring practices varied in its existence and strength.

One unit does not invoice external parties because the amounts due and payment dates are established in the signed agreement. Seven units prepare and send their own invoices for rental income, royalty income, conference event income, membership income, sales and service income, and donations. For the units that received more than one income type, there was an inconsistency in the invoicing process within the same unit where one type of income was invoiced and the other types of income were not.

All eight units appeared to regularly track amounts billed, owed, and followed up on amounts that remained unpaid to ensure all amounts were collected. The systems utilized to perform these activities varied widely. Six units relied entirely on an Excel spreadsheet for their receivables monitoring, while two units used

receivables modules in systems that were implemented because of services being provided by their units.

One unit claimed to have little familiarity with the relevant policies and procedures and no awareness of CBSO due to personnel taking over previously established procedures. The other seven units expressed awareness of relevant policies and procedures and provided explanations for not using CBSO in their units:

- For one unit, the small number of deposits related to lease payments does not warrant the use of CBSO;

- One unit noted discussing the advantages and disadvantages of CBSO. The primary reason for not using CBSO is that it does not accept credit cards, the preferred payment method for their tenants to pay rent. TouchNet Marketplace accepts credit cards, but the extra steps needed to move the payment to have the invoice paid is not worth the effort and time. Additionally, the rarely delinquent tenants would not qualify to be referred to outside collection agencies;

- One unit does not use CBSO because they are utilizing a systemwide UC network for billing and receivables management, which would lead to unnecessary redundancies. Two units do not use CBSO because they are part of the UCI School of Medicine, which utilizes a separate billing and receivables management system; and

- One unit does not use CBSO because communication had been poor in the past. They also mentioned that they have receivable balances outstanding for more than two years that is most likely to be uncollected due to the customer filing for bankruptcy. However, this receivable cannot be recognized and written off as bad debt on the general ledger because a receivable was not established and recorded at the time service was being provided. Instead, revenue is being recognized when cash payments are received regardless of when services were provided.

Overall, there is a lack of consistency in invoicing practices for billable activities and systems for tracking outstanding receivables. Additionally, there is a deficiency in basic accounting knowledge regarding how receivables are supposed to be recorded at the time of service occurrence. Because receivables are not consistently being recorded at the time of services/goods being provided, the outstanding receivable balance and the amount that should be written-off as bad debt is always understated.

Currently, each department is responsible for printing and sending their own paper bills. The submitting department is responsible for the authority, appropriateness, and accuracy of the charges billed. The amounts that may be owed to the University cannot be exactly determined because there is currently

no central mechanism to ensure that invoices are billed timely, receivables are recorded in the general ledger at the time services is being provided, payments are received in a timely manner, and uncollected amounts owed are being monitored and followed-up on.

According to Section 701-16: Departmental Billing Procedure, the University Invoice must be used by departments to bill for goods and services, fines, claims for reimbursement, and other miscellaneous obligations due the University for amounts over $20. All eight reviewed units billed for amounts over $20 outside of CBSO, which means the campus is currently out of compliance with University policy.

In order to improve monitoring and reporting, management should continue efforts to implement the CBSO across the campus. CBSO would consolidate the population of billable receivables into one application, which would allow Financial Services to effectively identify and monitor the status of receivables and thereby improve timely billing and collections. The use of CBSO campuswide will enable proper segregation of duties and accountability and allow for controls that minimize potential loss stemming from errors and fraud.

According to discussions with management, the Financial Services' budget does not currently support the full cost of the billing and collections activities for the entire campus; $2.50 is added to each individual invoice for the use of CBSO; $0.50 for invoices that are uploaded to the system. Financial Services management should work with Accounting and Fiscal Services to review total costs of billing and collection activities and develop a plan to fund these activities for the campus.

Until the OPAL Cashiering System is updated to accept credit card payments for non-student accounts and campuswide implementation occurs, detailed guidance should be made available ranging from how to book a receivable at the time service is provided, to how to assess the need to write-off an uncollected amount.

Management Action Plan

We concur.

In the interim period until funding for more staffing resources is identified for Billing and Collections, we will complete the following:

A. We will update all campus receivables policies and procedures and publish them on our website.

Expected completion date: August 31, 2021 for Response A.

B. The ARC non-student billing system is failing from a technology standpoint:

a. ARC was first deployed in 1990 and is built on a Clipper platform using a FoxPro database. ARC runs under MS DOS and it will not run under the latest version of Microsoft Windows and can only run on older 32-bit versions.

b. The last version of Clipper was released in 1997 and FoxPro went out of vendor support in 2015.

c. The ARC/FoxPro database encounters intermittent corruption issues that cannot be fixed because it is no longer under vendor support. This caused an issue in April 2020 when customer account comments were lost, which were integral for collecting outstanding invoices.

d. At any time, Microsoft could release a patch or new release/upgrade of Windows that would not be compatible with ARC and the system could become completely unusable. Financial Services is currently trying to mitigate these issues by only allowing one person at a time to log into the ARC system.

e. We do not have the staff to develop and administer training to the campus. The CBSO/ARC system historically has only marginal adoption across campus due to the rigid criteria hard-coded into it more than 30 years ago. Even if DFA mandates that the entire campus use this system for billing, if ARC fails, it will make the adoption of a new system even harder to sell to the campus. That, coupled with the uncertainty if the campus would be at least doubling the volume of transactions processing through the system, may expedite the complete failure of the system.

Once CASHNet Phase II is implemented, online payment options will be enhanced to accept credit cards for non-student accounts. One policy to be determined at that time will be who will be responsible, UCI or the Customer, for the payment of credit card convenience fees.

Expected completion date: February 28, 2022 for Response B.

9. **Relevant Policies and Procedures**

Background

IAS evaluated the existence of relevant and adequate University policies and procedures governing departmental and central invoicing and billing, collection of accounts receivable, cash collection deposits, and write-offs of delinquent accounts. IAS reviewed policies and procedures during discussions held with Financial Services management and staff.

Observation

Currently published policies and procedures are outdated and are in need of revision for the following:

Sec. 701-14: Procedure for Accounts Receivable – University Invoice

Due to the passage of Assembly Bill (AB)-1313 – Educational Debt Collection Practices Act in January 2020, transcripts and diplomas cannot be withheld from students who have holds on their unpaid accounts. Additionally, other than library fines, no other financial obligations owed to the University are invoiced to former University employees.

There is no process in place for authorized campus departments to provide goods and services to grant credit to outside organizations and to the public. There is also no process to ensure that each department not using CBSO sends their own invoices out. Departments also have the ability to cancel partial amounts of an issued invoice.

Due to staff limitations, claims issued to governmental agencies are not being billed and collected in a timely manner. Additionally, there is no process in place to ensure that unpaid invoices that are past due between 120 days and one year are reviewed, written-off, and sent to outside collection agencies for collection.

Sec. 701-16: Departmental Billing Procedure

For amounts over $20.00, departments must use the University CBSO Invoice to bill for goods and services, fines, claims for reimbursement, and other miscellaneous obligations due the University. Departments are not currently following this process; departments are billing for amounts over $20.00 independently.

Sec. 701-07: Collection of Accounts Receivable Procedure

IAS noted that the list of offices responsible for implementing prescribed collection procedures for specific types of accounts was not current. Additionally, information needed to be updated regarding the cancellation of registration of students with past due accounts and non-payment of registration fees.

Sec. 704-10: Campus Cashiering Procedure

Verification measures need to be added when campus departments receive checks. Specification is needed that dual custody should be observed and non-U.S. currency will not be accepted. References to Payment Services and TouchNet Marketplace have been added where necessary.

In addition to revisions needed to the above policies, there is no guidance available for booking a receivable at the time of billable activity occurrence, tracking and pursuing unpaid receivables, and writing off delinquent receivables to departments not currently using CBSO.

Management should review and revise existing University policies and procedures to ensure that they are current and mitigate risk to the campus by giving clear guidance to departments on billing and collection activity.

Additionally, in order to maximize the collection of outstanding receivables, campus practices should conform with policies and procedures for granting credit, ensuring invoices are sent for billable activity, collecting on unpaid invoices, and reviewing, writing-off, and transferring delinquent accounts to an external collection agency.

Management Action Plan

We concur.

In the interim period while funding for more staffing resources are identified for Billing and Collections, we will complete the following groundwork:

A. We will update all campus receivables policies and procedures and publish them on our website.

B. We will develop training guides and prepare workshops for campus constituents on how, when, and where to bill non-student receivables.

C. Once the above are complete, and we are staffed to handle the additional volume, we will request that the CFO/VC issue a coded memo requiring all university entities to solely use the CBSO invoicing system.

In April 2020, the CFO/VC intended to issue Coded Memo AC 2020-03: Campus Cash Collection Deposits Procedures that prompted a review of UCI Policies and Procedures Section 704-10: Cashiering Policies and Procedures by Financial Services staff. They revised Sec. 704-10 but they have not yet publish this to the campus. Because of the updates, it was determined that Coded Memo AC 2020-03 was not necessary because UC Business and Finance Bulletin BUS-49: Policy for Cash and Cash Equivalents Received is the systemwide UC policy that all campuses are required to follow.

A. As suggested, Financial Services will make additional revisions to UCI Section 704-10: Cashiering Policies and Procedures to publish to the campus.

B. Financial Services will add additional guidance regarding the collection of foreign items and the disallowance of foreign currency. Once Financial Services publishes the revised policies and procedures, campus departments

will have the resources needed to accurately reflect current practices that should be followed in the collection and verification of cash and checks. References to Payment Services and TouchNet Marketplace have been added where necessary.

Expected completion date: July 31, 2021.

10. Creditworthiness

Background

Per Sec. 701-14: Procedure for Accounts Receivable – University Invoice, credit may be granted to outside organizations and to the general public (which may include students and staff) by campus departments authorized to provide services and/or products. IAS held discussions with Financial Services management and staff to gain an understanding of the credit granting process.

Observation

The implementation of the new Banner system was supposed to include a module to help with the credit granting process. However, with the delay in its implementation, there is currently no vetting process in place to assess the creditworthiness of potential customers before granting credit to outside organizations and therefore, enforce the legal obligation to pay.

The lack of robust credit granting practices leads to an increase in delinquent debtors, delayed payment practices, and unpaid balances.

In order to maximize the collection of accounts receivable and minimize the need for write-offs, management should implement compensating controls that allows management to perform due diligence to identify repeatedly delinquent debtors and accordingly extend credit. Management should also produce policies and procedures to give guidance on the granting of credit to customers.

Management Action Plan

We concur.

In order to close the gap between Sales and Services agreements and the actual billing of services rendered:

A. We will work with Procurement Services and the Associate Controller to update Section 701-23: Sales and Service Activities Interim Policy to ensure that all sales and services agreements include credit checks.

B. We will also update the same policy with billing requirements and payment terms that are enforceable within the non-student accounts receivable and

billing system (ARC) without manual intervention. This includes the requirement to bill these accounts via CBSO.

C. If a customer fails to meet the payment terms of the agreement, in lieu of utilizing the balance due hold function in the billing system, Financial Services will advise the issuing department to cease all activity with that entity until their account is brought current. This includes the payment of late fees.

D. We will request access to the agreements to use as follow-up for collections.

Expected completion date: September 30, 2021.