



Office of the City Auditor

**Report to the City Council
City of San José**

**ACCOUNTS RECEIVABLE:
THE CITY CAN ENHANCE
REVENUE COLLECTIONS
BY IMPROVING ITS
BILLING AND
COLLECTION PRACTICES**

**Report 14-12
December 2014**

December 4, 2014

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

Accounts Receivable: The City Can Enhance Revenue Collections by Improving Its Billing and Collection Practices

Like many cities, the City of San José (City) is supported by a variety of revenues including sales taxes, property taxes, franchise fees, development-related fees, licenses and permits, and other charges for City services. These revenues are collected in various ways, including cash collections at the point of service, remittances by the state or county (e.g., sales and property taxes), and billing residents for services, fines, or other charges for payment at a later date.

In FY 2012-13, the City issued more than \$300 million dollars of service-related invoices to residents, businesses, or other customers. With the exception of utility billings, the responsibility for issuing invoices lies with line departments providing services; the responsibility for payment processing and collections generally lies with the Finance Department. The objective of this audit was to review the City's billing and collection procedures and practices related to invoices generated in line departments.

Finding 1: More Timely Billing Can Increase the Likelihood of Invoices Being Paid. Ensuring timely billing is an essential element of the revenue collection cycle. However, more than a third of the invoices reviewed in this audit had been issued more than 30 days from the date of service/citation. We recommend the Finance department finalize its draft Citywide guidelines for billing practices and require individual departments to update their billing procedures to include timeliness goals.

Finding 2: Improved Procedures Can Ensure Greater Accuracy of Billings. Nearly all of the invoices reviewed during this audit were billed to the correct party and contained the correct charge. To reduce the likelihood of errors, departments often preload fees in billing systems and cross reference other City databases to ensure the correct party is billed. However, manual calculations are still required for some invoices and identifying the responsible party to invoice can still be a challenge. We recommend departments update their procedures to ensure proper parties are billed and charges are calculated correctly. In addition, the Finance Department should update the data table driving the penalty and interest calculations within Finance's collections software.

Finding 3: Finance Can Enhance Collections by Improving Procedures and Addressing its Backlog of Old Accounts. From 2008 through 2013, total outstanding invoices in Rev Plus, the City's primary collections software, grew from \$18 million to \$26.5 million. Nearly 70 percent of the amount outstanding at the end of 2013 was more than one year old (compared to just 43 percent in 2008). This backlog of old delinquent accounts, together with staffing vacancies, has resulted in large workloads for collections staff which, in turn, have resulted in slow or inconsistent collection efforts for individual

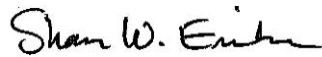
accounts. In addition, Finance has not been consistently sending accounts to its outside collection agency or writing off old accounts in recent years. Finance should reduce the backlog of old accounts, develop new collection tools, and re-focus on those accounts that are most cost effective to pursue. Also, the City does not offer online payment options for all of its billable activities and should work to make such options available to make it easier for residents and businesses to pay invoices for City's services.

Finding 4: Better Departmental Coordination Can Lead to Improvements Across the Entire Revenue Collection Cycle. Under the City Charter, the Director of Finance is charged with receiving or collecting monies due to the City. Under this authority, Finance conducts collection activities and tracks delinquent invoices owed to the City. However, some departments conduct their own collection activities on delinquent accounts. We recommend Finance formally delegate authority to those departments that conduct these activities, and work with departments throughout the City to update their procedures to ensure there are proper controls over collection activities. We also recommend improving the software interfaces between departmental billing systems and Finance's collections software and conducting regular reviews to monitor collection efforts and identify potential problems.

We would like to thank the Finance Department, the City Manager's Office, and other departments, as well as the City Attorney's Office for their time and insight during the audit process.

This report includes 18 recommendations. We will present this report at the December 11, 2014 meeting of the Public Safety, Finance, and Strategic Support Committee. The Administration has reviewed this report and its response is shown on the yellow pages.

Respectfully submitted,



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Introduction

The mission of the City Auditor's Office is to independently assess and report on City operations and services. The audit function is an essential element of San José's public accountability and our audits provide the City Council, City management, and the general public with independent and objective information regarding the economy, efficiency, and effectiveness of City operations and services.

In accordance with the City Auditor's Fiscal Year (FY) 2014-15 Work Plan, we have completed an audit of the City's billing and collections of accounts receivables originating in City departments. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The Office of the City Auditor thanks the Finance Department, the City Manager's Office, and other departments, as well as the City Attorney's Office for their time and insight during the audit process.

Background

Like other cities, the City of San José (City) is supported by a variety of revenues including sales taxes, property taxes, franchise fees, development-related fees, licenses and permits, and other charges for City services. In FY 2012-13, the City's revenues totaled \$1.67 billion, broken down as follows:

Exhibit I: Sources of City Revenues, FY 2012-13 (in thousands)

	Governmental Activities	Business-type Activities	Total
Program Revenue:			
Fees, fines, and charges for service	\$ 399,161	\$ 370,399	\$ 769,560
Grants and contributions	145,223	16,811	162,034
General Revenues			
Property taxes	329,591		329,591
Utility, business, and other taxes	182,148		182,148
Sales taxes	163,751		163,751
Franchise fees and other revenues	66,962	(1,612)	65,350
Total Revenues	\$1,286,836	\$ 385,598	\$1,672,434

Source: FY 2012-13 Comprehensive Annual Financial Report.

Note: Business-type activities include the Airport, the Regional Wastewater Facility, the Municipal Water System, and parking revenues.

Actual receipt of the City’s revenues occurs in various ways. For example, property taxes are collected by Santa Clara County and remitted to the City, while sales taxes are collected and remitted by the State of California. The City collects some payments at the point of service (e.g., some permits, development center activity, recreation fees). Other times, residents or businesses are invoiced, or billed, for services (e.g., garbage and recycling services, sidewalk repairs, animal license renewals), fines associated with municipal code violations (e.g., false alarm fines, administrative citations), or other fees for payment at a later date.

The ability for the City to receive actual payment for revenues invoiced (for later payment) is vital for the City to continue to provide services beneficial to its residents and businesses.

The City Invoiced More Than \$300 Million During FY 2012-13

During FY 2012-13, the City invoiced more than \$300 million of service-related revenues to residents, businesses, or other customers. The largest of these revenue sources is utility bills issued by the Finance Department (Finance) through its Integrated Billing System (about \$157 million).¹ Other activities are invoiced by City departments providing direct services to the public (line departments). Examples of invoiced activities² are listed in Exhibit 2:

¹ The scope of this audit includes reviewing billing and collection practices of accounts receivables generated in line departments. As the utility billings are centralized within Finance and not conducted by a line department (in this instance, the Environmental Services Department), we did not review utility billings as part of this audit.

² For this audit, we are excluding bills which may be prepared to be paid *upon delivery of a service*. When describing invoicing, we are referring to the act of issuing an invoice or bill for later payment.

Exhibit 2: Invoiced Service-Related Revenues in San José, FY 2012-13

Department	Estimated Total Annual Invoices	Examples of Invoiced Services/Activities
Finance	\$157 million	Garbage and recycling services ³ , Municipal Water services
Airport	\$91 million	Airport tenant charges, landing fees, ground transportation citations
Environmental Services	\$41 million	Reimbursements from tributary agencies for Regional Wastewater Facility costs, certain recycled water customers, watershed protection citations
Planning, Building, and Code Enforcement	\$6 million	Multiple housing permits, code enforcement administrative citations, tobacco retail licenses, off sale alcohol permits
Fire	\$4 million	Fire permits and inspections
Public Works	\$3 million	Utility excavations, certain sanitary sewer connection fees
Public Works – Animal Care and Services	\$3 million	Pet licenses, citations, reimbursements from other jurisdictions
Transportation	\$2 million	Sidewalk and street tree citations, cost of repairs to City infrastructure resulting from traffic collisions
Library	\$1 million	Library late fees and fines
Police	\$1 million	False alarm and permit fines, reimbursements for board ups, and miscellaneous activities
Total	\$309 million	

Note: Estimated totals are rounded to the nearest million.

Source: Auditor analysis of financial management system data and interviews with City departments.

In addition, the Human Resources Department (HR) invoices employees for benefits for which they are responsible during leaves of absence or for COBRA payments after they leave City employment. In FY 2012-13, these totaled roughly \$144,000.

Responsibilities During the Revenue Collection Cycle Are Shared Between Finance and Line Departments

The typical revenue collection cycle can be broken down into different stages:

1. Service/citation – A department of the City provides a billable service to a customer or issues a citation which would result in a fine.
2. Invoicing – The issuance of an invoice for the costs to be remitted by the recipient of the service.
3. Payment – In general, the City's customers can pay their bills by mailing checks, paying by check or credit card to a cashier on the first floor of City Hall, or calling Finance's payment processing group and paying by

³ Beginning in July 2015, garbage and recycling services for single family residences will no longer be invoiced by the Finance Department. In the future, such services will be included on households' Santa Clara County property tax bill and be remitted to the county upon collection.

credit card.⁴ In limited circumstances, there may be an online payment option for customers.⁵ Finance's payment processing group is generally responsible for updating customer accounts to reflect the payment on the invoice. For some billing activities, this occurs at the line department level.

4. Collections – If the City does not receive payment on an invoice by its due date (generally 30 days from the invoice date), it becomes delinquent and the final step in the process begins – the collection process.

Each of these stages is critical to the actual receipt of payment for the service or fine. For example, the actual collectability of an invoice can be negatively affected if a citation is not issued to the correct party, the invoice is sent to the wrong address or is not timely, or the City does not pursue collection efforts upon an invoice becoming delinquent.

The City Has Multiple Billing Systems

Invoicing (or billing) for fees, fines, or charges for services often originates with line departments, where invoices are generated and mailed to customers. In general, invoices are either created by departmental billing systems or in Revenue Plus (Rev Plus), the City's primary billing and collection software for non-utility services.⁶

Many, but not all, of the invoices created in departmental billing systems are later uploaded into Rev Plus through a software interface in order to track and maintain outstanding accounts centrally. Finance estimates that about \$65 million in annual billings are run through Rev Plus.

However, some billing systems do not interface with Rev Plus (e.g., Planning, Building, and Code Enforcement's AMANDA system; the Fire Department's FireHouse system; and the Airport's PropWorks system). In these cases, the accounts are tracked and collection activities are conducted within these separate systems.

⁴ If paying by check, payments are often sent directly to Finance's payment processing work group, who record the receipt in the City's financial management system and update the customers' accounts. In some cases, payments are sent to a lockbox. With these lockboxes, a bank can accept and process payments for the City. The payment information is then sent to the City to be uploaded into the relevant City billing system to update customer accounts.

⁵ Billing programs that offer online payment options include Library fees and fines, animal licenses, water, and garbage.

⁶ Rev Plus is slated to be replaced by Revenue Results. Implementation of Revenue Results is expected for early 2015. More information on Revenue Results is found in Finding 4.

Upon Delinquency, Invoices Are Assessed Penalties and Interest and Responsibility Shifts to the Finance Department

In general, invoices issued by the City are due 30 days from the date of the invoice. If an invoice remains unpaid after 30 days, it is past due, or delinquent, and the City issues a second notice to the debtor. A third notice is issued at 60 days.

When an invoice becomes past due, the City assesses a late fee and begins accruing interest on the account. In addition to penalties and interest, the City will charge a collection fee to recover the administrative costs of collections (\$38 for FY 2013-14). If the City refers the delinquent invoice to its outside collection agency, an additional fee will be charged to recover those costs (\$25 or 15 percent of the bill, whichever is higher).⁷

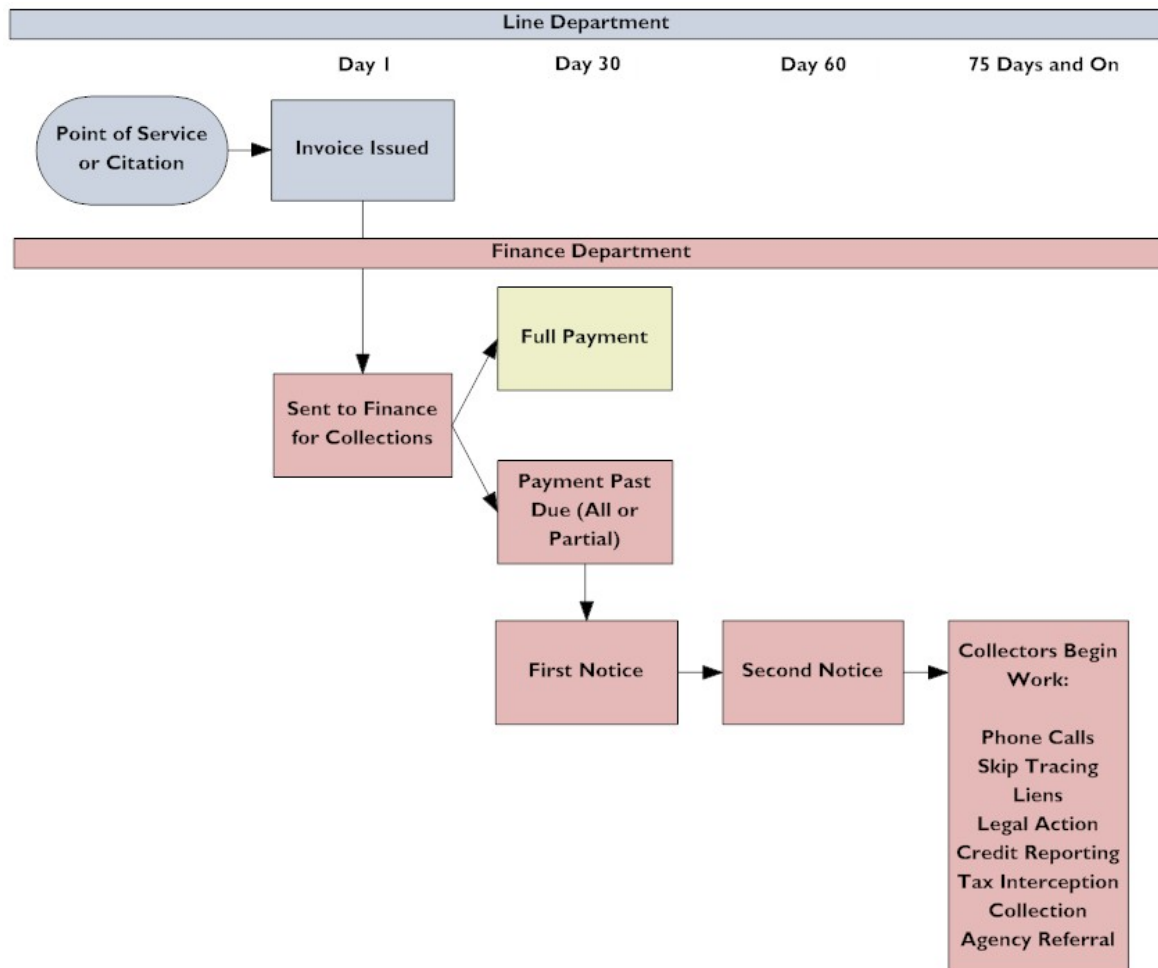
Generally, when an invoice becomes delinquent, collections activity becomes the responsibility of the Collections work group within the Finance Department's Revenue Management Division. This work group consists of six Investigator/Collectors (collectors) and one supervisor. As of September 2014 there were two vacant collector positions. Three of the four collectors currently on staff are certified by the California Municipal Revenue and Tax Association as Certified Revenue Officers (CRO). The fourth had previously been certified as a CRO and, according to Finance, is working to regain certification.⁸ In order to be certified, collections staff must demonstrate knowledge of industry laws and regulations, customer service, collections, and various types of revenue sources.

Exhibit 3 is a flowchart showing where responsibilities fall within the billing and collection cycle for invoiced services.

⁷ Until August 5, 2014, the City's contract with its outside collections agency stipulated a referral fee of \$25 per account or 14.75% of the total collected per account, whichever is greater.

⁸ The collections work group supervisor is also not a CRO. He has been in this position with the City since 2000. According to the department, that position's job requirement for CRO certification was not put in place until 2004.

Exhibit 3: Responsibilities for Billing and Collection



Source: Auditor analysis of billing and collection cycle.

Note: Point of service or citation could occur the same day as the invoice issue date, or any range of time before.

Audit Objective, Scope, and Methodology

The objective of our audit was to review the City’s billing and collection procedures and practices related to invoices generated in line departments. Through a series of interviews and reviews of department invoicing or collection procedures, we sought to understand the relevant management controls of the billing and collection process. Specifically, we:

- Reviewed the City Charter and Municipal Code to understand the legal authority for billing and collection activities as well as the Council-approved Fees and Charges Report and Schedule of Fines.
- Interviewed and surveyed staff in line departments, specifically, the Airport, and the departments of Environmental Services; Fire; Human Resources; Library; Planning, Building, and Code Enforcement; Police;

Public Works; and Transportation to identify the programs for which they invoice and understand their invoicing practices. We also reviewed billing, payment, and collection procedures for each where they were available.

- Analyzed data from various City billing, collections, or work order systems, including Finance’s Revenue Plus collections software; the Airport’s PropWorks system; the Fire Department’s FireHouse software; the Library’s Sierra system; and Planning, Building, and Code Enforcement’s AMANDA system.
- Randomly selected a representative sample of invoices from 2013 for each of the line departments identified that generate invoices. For the 125 invoices selected, we:
 - Reviewed backup or source documentation for each of the sampled invoices to determine whether they were invoiced to the correct party and contained the correct charge.
 - Assessed whether the invoice had been billed within 30 days from the event giving rise to the invoice.
 - Reviewed current account status (as of May 2014) to determine whether it had been paid in full or was still outstanding.
- To understand Finance’s payment processing and collection practices as well as to determine the level and timeliness of collection activity on outstanding invoices, we:
 - Interviewed payment processing and collection staff.
 - Reviewed Finance’s draft procedures for collections activities and finalized procedures for adjusting/canceling invoices within Revenue Plus, the City’s primary billing and collections software.
 - Analyzed collector notes for a sample of accounts in Revenue Plus.
- Benchmarked billing and collection practices with other cities including Long Beach, Los Angeles, Oakland, Sacramento, San Diego, and San Francisco, and the counties of San Mateo and Santa Clara.
- Reviewed best practices, including:
 - The California Department of Finance’s *Accounts Receivable Toolkit* for state departments.
 - The Government Finance Officers Association’s recommended and best practices for *Creating a Revenue Control and Management Policy* and *Revenue Collection Administration: A Guide for Smaller Governments*.

- *Brass Tax: The Compendium of Local Government Collection Powers and Practices in the United States and Canada* by Jeffrey Scharf, Kevin Appel, and Patricia Weth.
- Other jurisdictions' procedures or policies surrounding invoicing and collections, including the cities of Los Angeles and San Diego, and the states of California, North Carolina, Utah, and Virginia.
- Reviewed penalties, interest, and collection fee calculations in Revenue Plus and other collection systems.

This audit focused on invoices generated in line departments and thus did not include utility billing. It also focused on the City's billing and collection processes; as a result we did not test the underlying data systems. We also did not verify performance measures reported by the Finance Department's Revenue Management Division.

Finding I **More Timely Billing Can Increase the Likelihood of Invoices Being Paid**

Summary

Ensuring timely billing is an essential element of the revenue collection cycle. However, more than a third of the invoices reviewed in this audit had been issued more than 30 days from the date of service/citation. We recommend the Finance department finalize its draft Citywide guidelines for billing practices and require individual departments to update their billing procedures to include timeliness goals.

A Third of Invoices Reviewed Were Issued More Than 30 Days From Date of Service

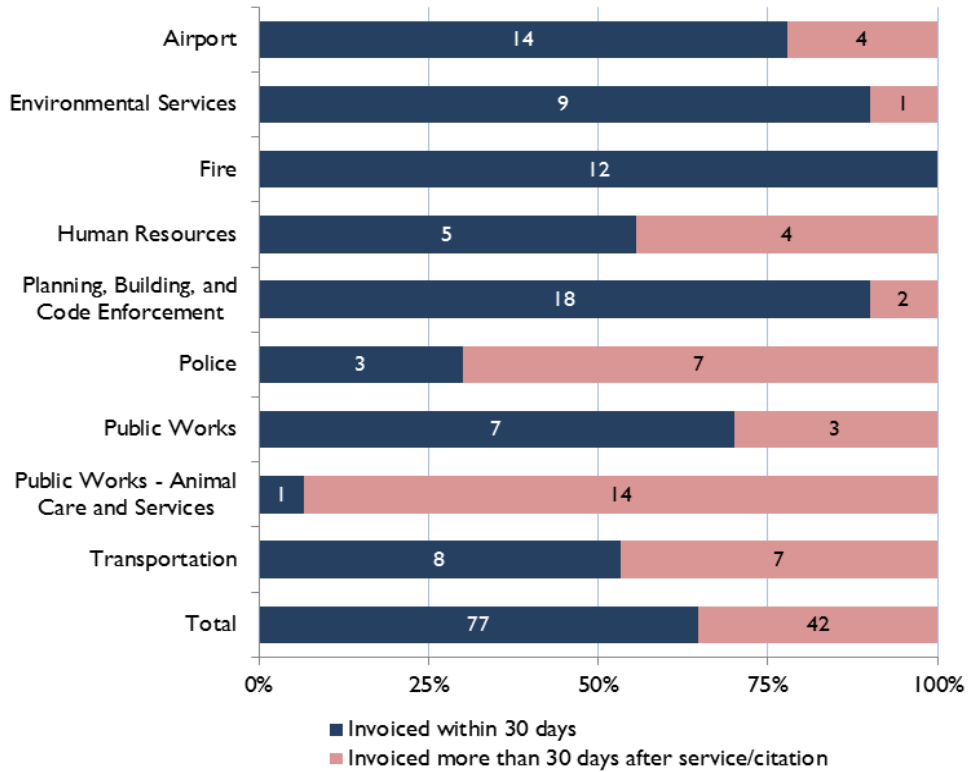
According to the Government Finance Officers Association (GFOA), accounts receivables problems begin when local governments fail to send a timely bill after a service is provided. Timely billing is essential as the likelihood of receiving payment may diminish the longer a debtor goes without receiving notice from the City that some amount is owed. In Los Angeles, citywide guidelines state:

The timing of a bill directly affects whether revenue is received...Failure to bill in a timely manner creates a two-fold negative impact. First, the longer an account goes without contact, the likelihood of recovery diminishes. Second, failure to attempt to collect creates a perception among customers that accounts do not have to be paid. Therefore, prompt mailing of the invoice is a critical step in the collection process.

In San José, the timeliness of billing varies across departments; in some cases it varies across activities within departments. Of those invoices reviewed by audit staff, the timeliness ranged from same-day billings to one issued more than one and a half years after the event giving rise to the invoice (the average length of time between service and invoice dates was 43 days).⁹ As shown in Exhibit 4, more than a third of the bills reviewed (42 of 119) were issued more than 30 days after the event giving rise to the invoice.

⁹ The invoice issued more than one and half years after the event giving rise to the debt was a Human Resources (HR) invoice for the employee portion of the cost of benefits during a time when that individual was on leave. HR was not notified of the employee's absence. HR billed the employee once they were aware of the situation.

Exhibit 4: Timeliness of Sampled Invoices (by department)

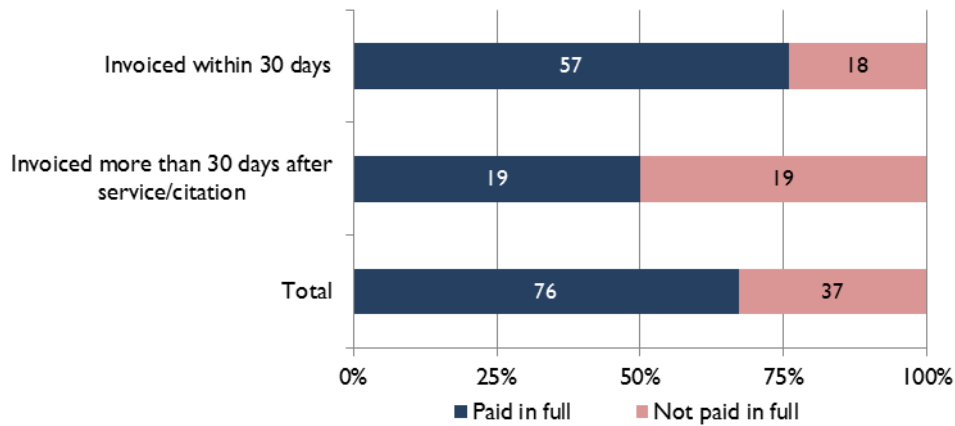


Source: Auditor analysis of a sample of invoices from calendar year 2013 and supporting documentation across departments.

Note: All calculations are from the date of the event giving rise to the invoice, such as a service date, citation date, or when the amount of reimbursable expenses owing the City is determined.

As shown in Exhibit 5, bills that were invoiced within 30 days were more likely to be paid in full than bills that were invoiced more than 30 days after service/citation.

Exhibit 5: Collection Status of Sampled Invoices (as of May 2014)



Source: Auditor analysis of a sample of invoices from calendar year 2013 and supporting documentation across departments

Note: The number of total accounts differs from Exhibit 4, as invoices which were later canceled were excluded from this analysis.

Some of the variance across and within departments can be explained by the type of activity giving rise to the invoice. For example, among the reviewed invoices for the Fire Department were some related to annual occupancy permits for businesses within the City. These are generally billed prior to the effective date of the permit.

Variances across activities can also be attributed to competing priorities for staff who are responsible for preparing invoices. Preparing invoices are often a lower priority than other departmental activities. According to departments, staffing cuts to support staff in recent years has exacerbated this problem.

Coordination Across Departments Can Lead to Delays in Billing

Finally, some activities require coordination between multiple departments which can delay billing. In one example, the Department of Transportation (DOT), the Police Department (Police), and Finance must coordinate to identify, repair, and bill for any damages to street signs, lights, or other traffic infrastructure resulting from traffic collisions. The responsibilities are broken down as follows:

- After a traffic collision, Police fills out a traffic collision report identifying the cause of the incident, which it forwards to DOT.
- DOT reviews traffic collision reports to determine if damage to City property occurred, and if so, completes the repairs and prepares the billing information.
- Finance's risk management group receives the billing information from DOT (i.e., amount, billable party, etc.), determines the responsible party behind the damages, and issues an invoice through Rev Plus.

Currently, the Police Department forwards all traffic collision reports to DOT and sorting through these to identify responsible parties for damages to traffic infrastructure takes a long time. The result is that the timeliness of these invoices suffers. Of the three traffic collision-related invoices reviewed by audit staff, all were invoiced over eight months after the repairs were completed by DOT.

According to DOT, they have been working with Police to develop procedures, primarily centered on technology solutions that are expected to reduce the time it takes to identify damage and complete the billing process. Police is currently upgrading their records management system; the next step in this upgrade is to automate field data collection and electronic storage of the traffic collision reports. This is anticipated to occur during the first quarter of 2015. Once the initial automation step is completed, Police and DOT can begin evaluating options to further enhance the usefulness of the traffic collision data whereby reports can be automatically categorized and routed by DOT to the appropriate maintenance crews to make repairs to damaged City property. These improvements should also reduce the time necessary to identify responsible parties to bill for damages.

Recommendation #1: The Department of Transportation should work with the Police Department to develop and implement technology enhancements to the Police Department's records management system, including the following:

- **Automate field data collection and electronic storage of the traffic collision reports and provide access to the data for use by the Department of Transportation.**
- **Implement changes in the records management system to collect and provide additional traffic collision data that would be used by Department of Transportation to electronically identify, categorize, and initiate inspection and repair of damaged City property.**

Not All City Departments Have Timeliness Goals for Issuing Invoices

Many departments have written policies and procedures for billing activities. However, not all have established time frames by which services or citations are to be billed. In some cases, there may be unwritten timeliness guidelines, but they are not documented in approved written procedures. See Appendix A for more detail on what is and is not currently included.

Other jurisdictions have specific guidelines for when an invoice should be sent following the provision of a service or issuance of a citation. The California Administrative Manual states that invoices should be sent as soon as practical and within 30 days after the event giving rise to the accounts receivable. In Los Angeles, citywide guidelines call for invoices to be sent within *five* business days of service. San José's Finance Department has created draft guidelines for accounts receivables and revenue collection procedures which set expectations for departments for their billing practices. However, these have not been finalized or distributed to departments.

Recommendation #2: The Finance Department should finalize and distribute Citywide billing guidelines (City Administrative Policy) and require departments to include timeliness goals in their departmental billing procedures.

Finding 2 Improved Procedures Can Ensure Greater Accuracy of Billings

Summary

Nearly all of the invoices reviewed during this audit were billed to the correct party and contained the correct charge. To reduce the likelihood of errors, departments often preload fees in billing systems and cross reference other City databases to ensure the correct party is billed. However, manual processes are still required for some invoices and identifying the responsible party to invoice can still be a challenge. We recommend departments update their procedures to ensure proper parties are billed and charges are calculated correctly. In addition, the Finance Department should update the data table driving the penalty and interest calculations within Finance's collections software.

Nearly All Invoices Reviewed Included Correct Charges and Were Billed to the Correct Party

We reviewed a sample of invoices across departments to assess their accuracy, specifically whether the correct party was billed and whether the amounts invoiced agreed with supporting documentation for the calculated charges or with Council-approved fees, charges, or fines.

Preloading Fees in Billing Systems and Cross Referencing with Other Databases Can Reduce the Likelihood of Errors

Fees and charges are often pre-loaded into departmental billing systems to eliminate the possibility of human error in calculating fees. In other instances, staff in one department will access other City databases to ensure the correct party is invoiced. For example, the Police Department issues citations for false alarms to residents or business as part of their False Alarm Abatement Program. First, the relevant fees are input into AlarmTrack, the department's billing system, to be automatically assessed upon the issuance of a citation. Second, Police Department staff cross-reference the address of the false alarm with the City's business tax database to ensure the correct party is invoiced.

Nearly all of the invoices across departments reviewed in this audit included the correct charge and were billed to the correct party. However, there were errors in eight of the 120 invoices reviewed (a 7 percent error rate).¹⁰ Some of the errors had been caught, and the invoices reissued with the correct fee prior to our review. Five out of the eight erroneous invoices included manual processes to calculate the billable charges.

Health Benefit Invoices Could Be Automated

One of the eight erroneous invoices was a billing for employee health benefits. While the majority of City invoices are automated, a few billings are manually tracked in software such as Microsoft Excel. City employees taking an extended leave of absence may submit a request for continued health benefits to the Human Resources Department (HR). Employees on leave are charged based on the benefit(s) requested, type of leave (family medical leave, unpaid leave, etc.), and length of absence.

Currently, HR invoices City staff using a spreadsheet template detailing the amounts due per pay period. If the balance is not paid, a late notice is mailed out. If a balance still remains after the late notice, unpaid accounts are sent to Finance for collections.¹¹ HR also requires employees to remit a separate check for each benefit. In some cases, this can be up to ten separate checks for one month of benefits; some of these checks can be for as little as 45 cents.

In order to reduce room for error in manual calculations and better track outstanding accounts, HR should automate its billing process for leave benefits. Additionally, HR should provide more flexible payment options where employees could pay with one check or online. HR is in the process of obtaining a new HR, benefits, and payroll system.

Recommendation #3: The Human Resources Department should automate its invoicing process and provide easier payment options for employees.

¹⁰ Two invoices for sewer treatment plant connection fees for industrial facilities did not accurately account for credits to be applied against the calculated fees (in one instance, the original bill also incorrectly described the charges as restaurant rather than industrial fees). Three invoices related to the City's sidewalk and tree program either did not contain information describing the reason for the bill or were issued to an incorrect property owner (the department (DOT) has since updated its procedures to check Planning, Building, and Code Enforcement's property database to ensure it has better property owner information for billing purposes). All five were subsequently reissued with the correct fee and information.

Three invoices contained minor errors that led to immaterial undercharges (\$10 or less). These were not reissued. Two of the invoices with minor errors were the result of one department using out-of-date materials and equipment rate sheets to calculate the costs for two invoices. As a result of this audit, the department has developed new procedures for staff to annually update its rate sheets for billable activities to ensure that fees are calculated correctly.

¹¹ HR only refers accounts to collections if they determine that benefits were used.

Procedures for Identifying the Responsible Party for Property-Related Invoices Can Be Improved

Finance has identified invoicing for property-related citations or services, such as those issued for code enforcement violations, as one area that can be improved. Identifying and invoicing the correct property owner(s) is key for Finance's ability to conduct collection activities.

Unfortunately, identifying the correct party can be difficult. For example, when a code inspector issues a citation for a code violation, the City bills the responsible party as recorded in the Santa Clara County Clerk Recorder's website or identified through a RealQuest search.¹² However, there may be multiple responsible parties associated with the property, including an individual, a bank, or even a loan servicing agency. Property ownership may also change over time; according to the Department of Planning, Building, and Code Enforcement (PBCE), this was particularly true in recent years with the growth in the number of foreclosed properties in the City. Also, the property may have other outstanding code violations and the property owner of record at the time of those violations may be different than the current listed owner, potentially creating confusion about who the correct billable party should be.

A result of this confusion is that multiple parties may be invoiced for violations or services related to one property. For example, in one instance identified by Finance, one property had multiple code violations over a 13 month period that resulted in five separate invoices being issued to three different parties (one individual, one bank, and one property management agency). However, based on a RealQuest database search, the actual property owner was a fourth party (who had not been the recipient of any of the five different invoices). To avoid such situations, PBCE has updated its procedures to specify that property owners should be identified based on the property's deed. In certain cases, it may be appropriate to bill multiple parties; PBCE is working with Finance and the City Attorney's Office to address these cases.

Not All City Departments Have Written Guidelines for Issuing Invoices

The GFOA states that proper controls should be in place for billing practices, specifically that bills should be initiated following established procedures. As noted in Finding I and Appendix A, many departments have written policies and procedures for billing activities. These may, but do not always, identify staff duties, provide guidance on how to calculate charges, or provide data entry procedures for the relevant billing system. Also, although a department may have multiple billable activities, it may only have procedures for some and not others.

¹² RealQuest is a subscription-based, online property database

Written procedures are particularly important during times when there is staff turnover or shortages, which has been the case in recent years. This is especially true for activities where identifying the responsible or billable party may be difficult, fee calculations are complicated, or when coordination between departments is required.

For example, two of the invoices reviewed during the audit related to an activity which required coordination between multiple departments and contained complicated fee calculations. The billing responsibility for this activity had for some years fallen to one individual. When that individual left the City's employment, it fell to newer, less experienced staff and there were not written procedures for them to follow. As a result, neither of the two invoices we reviewed had originally included the correct charge (and subsequently needed to be reissued) nor were they issued timely (five and ten months after the original fee calculations respectively). As a result of this audit, the departments in question have since updated procedures to ensure these fees are billed more accurately and timely.

Address Correction Requested

Finally, the City has only recently begun including the "Address Correction Requested" notation on the envelopes used for its Rev Plus invoices. This notation instructs the United States Postal Service to return undeliverable mail along with a forwarding address if the debtor has moved or the reason why the mail cannot be delivered. This notation can help ensure that invoices reach the responsible party and can help locate those individuals or businesses later if further collections activities are required upon delinquency. According to Finance, they have begun instructing departments to include this endorsement in their billings as well. We believe this should be formalized in Finance's Citywide accounts receivable guidelines.

Recommendation #4: As part of the Citywide accounts receivable guidelines (City Administrative Policy), the Finance Department should require departments to:

- a) Document how departments will identify the correct billable party(s) and the methodology for how invoiced charges are calculated, and**
- b) Include a United States Postal Service "Address Correction Requested" endorsement for mailed invoices.**

The City Can Increase Revenues by Updating Penalties and Interest Calculations

The San José Municipal Code requires the City assess penalties and interest on delinquent accounts. The purpose of penalties is to encourage favorable behavior – in this case, timely payments for services rendered by the City or as a fine for not complying with the law. The purpose of interest is to compensate the government for loss of use of funds.

Finance's collections system, Rev Plus, automatically assesses interest and penalties at a fixed number of days from an account's invoice date. Rates and accrual intervals are set in the Municipal Code and Schedule of Fines and vary by the invoice type (i.e., fee for service or fine). More specifically:

- Fees are assessed up to two penalties of 10 percent of the amount owing at 30 and 60 days from the invoice date. Interest of 1.5 percent is charged every 30 days until the outstanding balance is due.
- Fines accrue one penalty of 10 percent at 30 days from the invoice date and interest of 0.5 percent every 30 days until the balance is paid off.

Penalties and Interest Could Be Applied More Accurately

Finance maintains a table of 291 invoice types and their associated penalties and interest rates (detailed above). This table is uploaded into Rev Plus and penalties and interest are automatically assessed based on the table's parameters. However, based on a review of the rates entered into the table, it appears that the table of billable programs uploaded into Rev Plus—the table that drives all the calculations—is incomplete.

Eight billable programs are missing in the table and three are assigned incorrect interest rates. Because of this, the City forewent \$175,000 in penalties and interest between January 2011 and August 2014 (roughly \$50,000 a year). Audit staff have provided Finance with a list of the programs with incorrect penalties and interest rates.

Additionally, for delinquent accounts related to a fee for service, interest is not accumulating on assessed penalties as required in the Municipal Code. According to Finance, the current collection system, which is over twenty years old, is unable to handle such calculations. Finance plans to integrate these calculations in the upgraded Revenue Results (Rev Results) (see Finding 4 for more information on the upgrade to Rev Results).

Collection Fee Is Applied Prematurely

In addition to penalties and interest, the City also assesses a collection fee in order to recover the cost of collecting delinquent invoices. For FY 2013-14, this fee was \$38. This fee is programmed into Rev Plus in the same manner as penalties and interest. Per the Council-approved Fees and Charges Report, the collection fee should be assessed either at 60 or 90 days from the *due date* of the invoice. However, the fee was being assessed at 60 days from the invoice date, rather than the due date, which has resulted in about 300 accounts per year over the past three years (\$9,000 per year) being incorrectly assessed the fee. Audit staff referred this problem to Finance during the course of the audit and it has since been corrected.

Recommendation #5: To ensure that the correct amount of penalties and interest are being assessed, the Finance Department should work with the Information Technology Department and/or the Revenue Results software vendor to:

- a) **Update the penalty and interest table uploaded into Revenue Plus/Revenue Results to include billable programs which are not currently being charged interest.**
- b) **Correct current interest calculations to charge interest on penalties for fees and charges.**

Recommendation #6: The Finance Department should refund collection fees incorrectly charged during fiscal years 2011-12 through 2013-14 where possible.


Penalties and Interest Can Also Deter Debtors From Allowing Debts to Become Delinquent

As well as providing additional revenue, the imposition of penalties and interest on delinquent accounts can be a preventive tool. Knowledge that the City will impose additional fees can deter a debtor from allowing his or her accounts to fall into delinquency. Clearly stating additional fees may also help the City avoid challenges from debtors. To this end, policies and procedures in other jurisdictions state that penalties and interest charges should be explicitly outlined on all invoices.

The City does impose penalties and interest on delinquent invoices; however, it does not consistently specify the terms or state what the penalty or rate would be. For example, for many invoices the terms are simply stated as “Invoices not paid within 30 days or contractually agreed terms will be subject to penalties and interest.” Some invoices do state how much in penalties and interest will be

assessed upon delinquency. Exhibit 6 shows a sample Police false alarm abatement invoice with such a description. We believe that the City should more consistently and explicitly describe the penalties and interest that will accrue upon delinquency.

Exhibit 6: Sample Revenue Plus Invoice



CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

CITY OF SAN JOSE, CALIFORNIA

SAN JOSE POLICE DEPARTMENT
FALSE ALARM ABATEMENT PROGRAM
ADMINISTRATIVE CITATION
SAN JOSE MUNICIPAL CODE SECTION 10.42.140

Citation/Invoice Date: [REDACTED]

Violation Address: [REDACTED]

TERM NET - PAYMENT BECOMES DELINQUENT 30 DAYS AFTER CITATION DATE UNLESS OTHERWISE NOTED. A PENALTY OF 10% AND INTEREST OF 1/2% PER MONTH WILL BE ADDED TO ANY DELINQUENT BALANCE.

Please see reverse side for additional information.

INCIDENTS FOR THIS INVOICE					
CITATION #	CODE	CAD EVENT#	DATE/TIME	OCCURRENCE	AMOUNT
[REDACTED]	Alarm - False Alarm	[REDACTED]	[REDACTED]	4	\$300.00
False Alarm Charges for this invoice					\$300.00

Incident history for account - [REDACTED]

Approved By [REDACTED]

Make checks payable to "City of San Jose" for the total amount due. Include citation number on check and mail your remittance with the bottom portion of this citation to:

CITY OF SAN JOSE
Department 34924
P.O. Box 39000
San Francisco, CA 94139

Citations:

Detach at line Return this portion with payment

CITY OF SAN JOSE ADMINISTRATIVE CITATION
FALSE ALARM ABATEMENT PROGRAM

[REDACTED]

Invoice Date 04/18/2013

Client No	Citation	Acct No	Amount
01AC50F	[REDACTED]		\$300.00

Amount Due \$ 300.00

Amount Paid \$ [REDACTED]

Source: Police Department.

Recommendation #7: As part of the Citywide accounts receivable guidelines (City Administrative Policy), the Finance Department should include guidelines on standard language surrounding the imposition of penalties and interest. Such language should explicitly state the amount of penalties and interest to be charged and the time frame for which they will be charged.

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Finding 3 Finance Can Enhance Collections by Improving Procedures and Addressing Its Backlog of Old Accounts

Summary

From 2008 through 2013, total outstanding invoices in Rev Plus, the City's primary collections software, grew from \$18 million to \$26.5 million. Nearly 70 percent of the amount outstanding at the end of 2013 was more than one year old (compared to just 43 percent in 2008). This backlog of old delinquent accounts, together with staffing vacancies, has resulted in a large workload for collections staff which, in turn, have resulted in slow or inconsistent collection efforts for individual accounts. In addition, Finance has not been consistently sending accounts to its outside collection agency or writing off old accounts in recent years. Finance should reduce the backlog of old accounts, develop new collection tools, and re-focus on those accounts that are most cost effective to pursue. Also, the City does not offer online payment options for all of its billable activities and should work to make such options available to make it easier for residents and businesses to pay invoices for City's services.

The City Utilizes Multiple Collection Tools to Seek Payment on Delinquent Invoices

The City must pursue collection of delinquent receivables in order maximize the funding available for beneficial City services. When residents, businesses, or other customers do not pay what they owe to the City, they are ultimately asking their fellow residents to pay more for the costs of City services (through higher fees) or receive fewer services.

In order to encourage payment on delinquent invoices, collection officers use a wide range of collection tools. These tools vary in aggressiveness – from a friendly phone call to seizing personal or real property (also called distress) – and are employed based on the delinquent account's age and size as well as the debtor's capacity to pay. Ultimately, it is up to management to decide how far to pursue a debt within the constraints of federal, state, and local law.

Typically, once a bill becomes past due, Finance's collections staff will attempt to make contact with the customer to inform him or her about the debt and encourage payment by mailing automatically generated follow-up notices, making phone calls, and skip tracing (locating debtors whose addresses are not available

or have changed).¹³ For a customer experiencing financial hardship, staff can work with the customer to set up payment arrangements. Finance has developed draft procedures for revenue collections which state that the collections process begins at 75 days from the invoice date (or 45 days past due).¹⁴

If the balance remains unpaid, the City's internal collections staff is authorized to use the following tools to collect:

- Liens – Record of debt that is attached to a property itself or to the property tax roll
- Referrals to an outside collections agency
- Legal action – Filing a lawsuit to enforce collection in small claims court (for amounts less than \$5,000) or civil court with the assistance of the City Attorney's Office (for amounts greater than \$5,000)
- Credit reporting
- Tax intercept program – Reported debt is withheld from state tax refund before dispersal to the debtor.

Total Outstanding Invoices Have Grown in Recent Years

Despite these tools available to collectors, the value of total outstanding invoices in Rev Plus grew from \$18 million to \$26.5 million from 2008 to 2013, a nearly 50 percent increase.¹⁵ During that time, the composition of the outstanding invoices also changed. Whereas those over one year old accounted for 43 percent of the total outstanding at the end of 2008, they accounted for nearly 70 percent of the total in 2013. The dollar value of such invoices more than doubled over that time (from \$7.7 million to \$17.9 million). Exhibits 6 and 7 show the growth and changing composition of outstanding invoices from December 31, 2008 through December 31, 2013.¹⁶

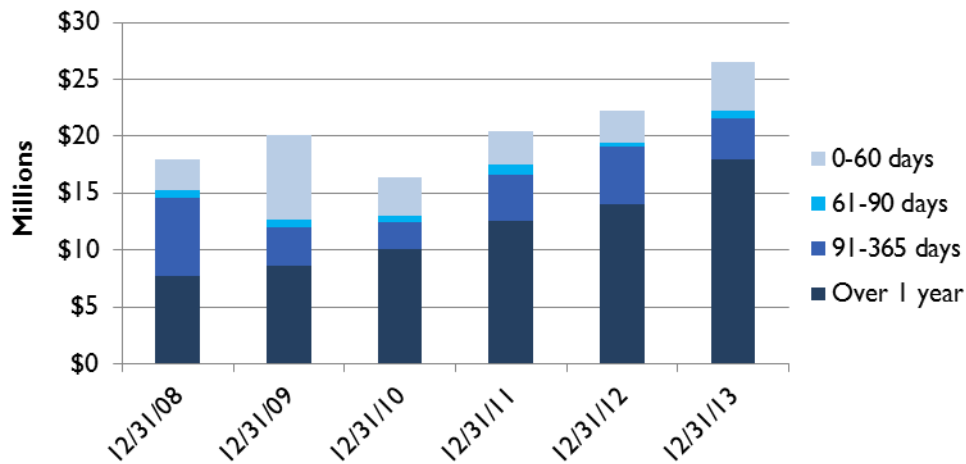
¹³ Collectors must contract with companies such as Experian, TransUnion, and Lexis Nexis for skip tracing services. According to Finance, their primary skip tracing tool was inoperable for several months in 2014 because the contract was being renegotiated as a result of a change in ownership. During that time, collectors had to rely on more limited resources such as internal databases and online searches to attempt to locate debtors. According to Finance, the issues with the skip tracing tool were resolved and became operable in August 2014.

¹⁴ Draft City Administrative Policy *General Guidelines for Accounts Receivable/Revenue Collection Procedures*.

¹⁵ This also includes a small number of Fire and Muni Water invoices outside of Rev Plus. Rev Plus invoices accounted for nearly 90 percent of collector workloads as of June 2014.

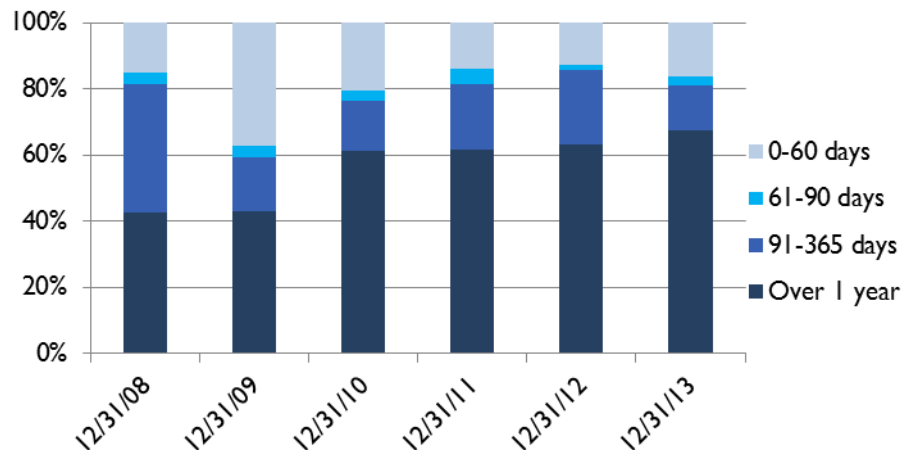
¹⁶ According to Finance, they underwent a series large write offs in 2008 and 2009 (\$5.2 million and \$3.6 million, respectively).

Exhibit 7: Dollar and Age of Total Outstanding Invoices



Source: Department of Finance quarterly financial reports to the Public Safety, Finance, and Strategic Support Council Committee.

Exhibit 8: Composition of Outstanding Invoices



Source: Department of Finance quarterly financial reports to the Public Safety, Finance, and Strategic Support Council Committee.

Large Collector Workloads Have Resulted in Slow Collection Activity on Delinquent Accounts

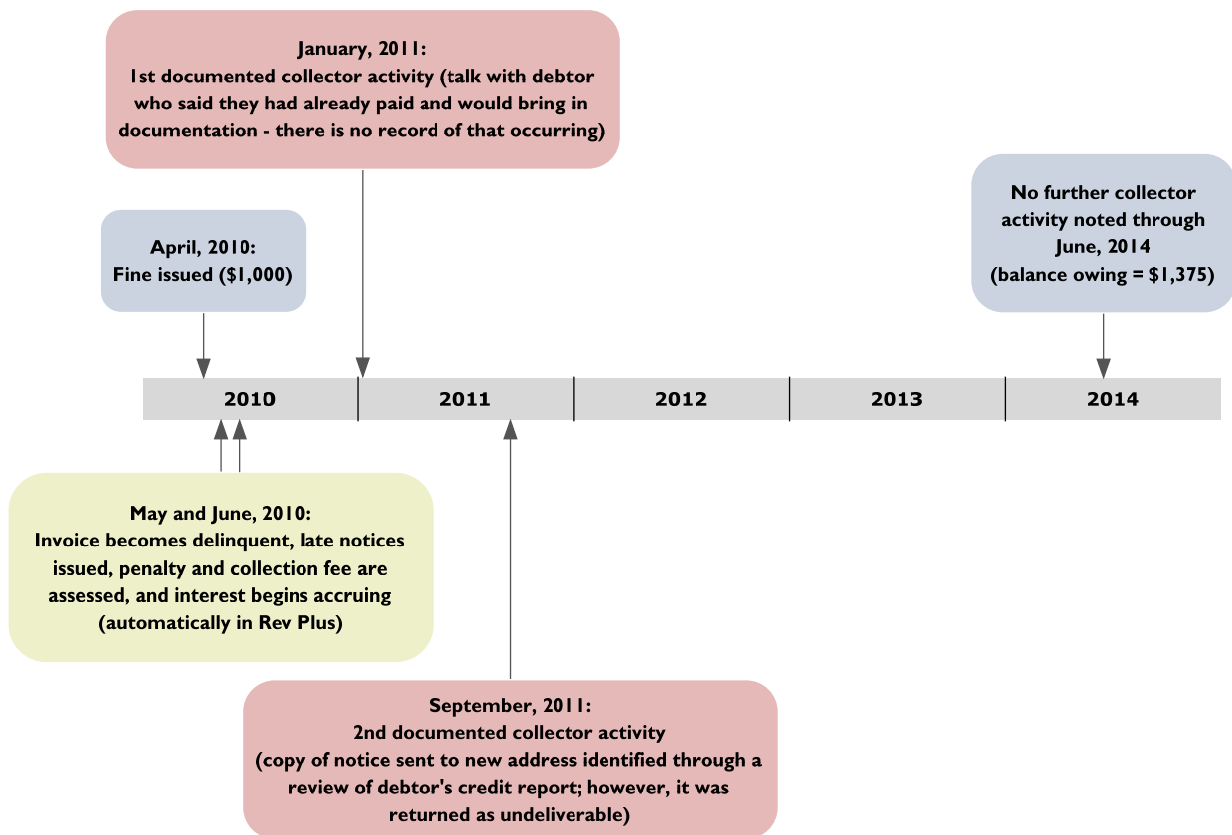
As a result of the growth in outstanding invoices, active workloads for collection staff have become very large. As of June 2014, collection staff had about 10,500 accounts in active collections, meaning they are currently included in collectors' active workloads and have not been liened, litigated in small claims court, or previously sent to the City's outside collection agency. Under current levels of staffing, collectors were responsible for about 2,600 accounts per collector.¹⁷ By

¹⁷ Currently, there are two collector positions vacant; if these were filled, the number of accounts per collector would be about 1,750.

comparison, the 12 collectors in Los Angeles that perform collections on delinquent accounts referred by its city departments are responsible for about 550-650 accounts. We estimate that it would take current staff about 12 weeks, or 3 months, to work through their entire account listings if no new accounts were added to their workloads (about 450 accounts are added each month, or about 110 per collector).

Because of these large workloads, actual collection efforts have been slow or delayed for individual accounts in recent years. For example, Exhibit 9 shows the documented collection activity for one account reviewed during the audit:

Exhibit 9: Timeline of Collector Activity on a Sample Invoice



Source: Auditor analysis of collector notes and account information in Rev Plus.

In another example, a delinquent account with an invoice date of March 2012 did not have any documented collector activity until May 2013 (or thirteen months after the original invoice had become delinquent). At that time, a final delinquency notice was sent to the debtor stating that if the outstanding balance was not received, the account may be forwarded to a collection agency or legal action may be taken. However, neither of these actions were taken. In January 2014, a collector attempted to call the debtor but reached an incorrect telephone number. No further collections activity was documented on the account through June 2014.

Audit staff also reviewed accounts, one more than two years old, which had not had any documented collector activity. In other instances, the only activity was the issuance of a final delinquency letter with no documented follow up beyond that.

It should be noted that vacancies have left the collections group less than fully staffed in recent years (during this audit, two of the six collector positions were vacant). In addition, according to Finance, they had reassigned some collection staff to the business tax group to assist with the City's business tax amnesty program which ran from December 2012 through August 2013. Each of these affected the ability of collections staff to perform timely collections activities on outstanding accounts.

Finance Has Not Consistently Been Obtaining Liens and Taking Legal Action

In addition to slowing and delaying collection efforts, the large workloads have led to the inconsistent use of two key collection tools: liens and small claims actions.

Liens Are an Important Tool for Property-Related Delinquencies

Liens can be placed on delinquent accounts that arise from work completed by the City. Depending on the type of lien, the City is reimbursed by Santa Clara County through property tax billings (e.g., sidewalk repairs) or eventually upon transfer of ownership (e.g., property sale, foreclosure), such as for administrative remedies. In the former, liens are considered guaranteed revenue because the county government advances the amount owed and accepts the risk of nonpayment. Accounts being considered for a lien must be approved by Council or the Appeals Hearing Board before collectors can proceed.

The City has three active lienable billing programs: abatements, administrative remedies, and sidewalk repairs. Liens for unpaid sidewalk repairs have been consistently executed on an annual basis. However, in the case of abatement liens and administrative remedy liens, Finance has only once requested approval to lien select accounts since January 2013. In one case, a bill from October 25, 2012 was not approved for further action until January 23, 2014, and was processed for a lien on June 10, 2014 ... over a year and a half from the invoice date.

Civil Actions in Small Claims Court Enables Collectors to Utilize Additional Collection Tools

Unpaid accounts that cannot be liened can be taken to small claims court. Obtaining a judgment through small claims court enables a collector to obtain information about assets (employment, bank account, tax filing, and property information) and is a prerequisite for other collection methods such as credit reporting and intercepting tax refunds. It also extends the statute of limitations by ten years, thereby increasing the timeline within which collectors can pursue

an account. According to Finance, the threat of legal action signifies that the City is serious about pursuing delinquencies and will often spur action on the part of a debtor. Based on our assessment, the use of small claims actions to pursue delinquent accounts has been inconsistent since 2012.

Utilizing Outside Collections Agencies Can Be a Cost Effective Means of Pursuing Some Delinquent Accounts

The use of an outside collections agency is common among governments, particularly for small or old accounts which may not be deemed cost effective to pursue with internal staff (i.e., the effort expended on collection is not in proportion to the amount of revenue expected to be collected). Finance's draft revenue collection procedures contain guidelines stating that invoices meeting certain criteria, including those less than \$500 or with out of state addresses, should be sent to the collection agency.¹⁸

However, actual referrals to the City's outside collection agency have not been consistent in recent years. The result is a large number of small invoices populating collectors' current workloads (about three quarters of delinquent accounts are under \$500). Although there may be reasons for some small accounts to not be sent to collections (e.g., sensitivity, multiple outstanding accounts with single debtor), we believe that more consistent referral of small accounts can allow collectors to more cost effectively focus their collection efforts.¹⁹

Writing Off Old Accounts Can Keep Collector Workloads Manageable

The Municipal Code provides authority to the Finance Director to write off accounts or claims under \$5,000 which it deems uncollectible or not cost effective to pursue. Accounts or claims over \$5,000 can only be written off as uncollectible with City Council approval. When an account is written off, the debtor has not been relieved of the debt. The account is just deemed not cost effective to pursue and active collections cease. The decision to actively pursue could be revisited upon new information (e.g., change of employment status of debtor).

Finance's draft revenue collection procedures provide guidelines for when accounts should be written off. However, in recent years, write offs have not been occurring, resulting in a large number of old accounts among those in active

¹⁸ The City also refers delinquent business tax, water, and garbage accounts to an outside collections agency.

¹⁹ According to Finance, because Rev Plus does not include specific details surrounding invoiced charges (e.g., service date), referring accounts to the outside collections agency requires collaboration with line departments to identify and provide such details. It is expected that with the implementation of Revenue Results, such information will be more readily available (see Finding 4).

collections (more than a third of accounts in active collections were more than two years old). According to Finance, they have begun a series of account write offs totaling \$6 million in 2014.

Finance Needs a Collection Strategy to Address Backlog of Old Accounts

As total outstanding invoices have grown, a backlog of old accounts has been created. As described earlier, more than a third of the accounts in collectors' workload are more than two years old. The California Department of Finance's *Accounts Receivable's Toolkit* states that the longer an account remains outstanding, the greater the risk it becomes uncollectible and result in the loss of revenues.

Collection staff, however, will often focus their collection activities on older accounts, as some of these accounts may not have been actively worked for some time and they do not want them to fall outside the statute of limitations for collections.²⁰ Although reasonable, the result of this is that collectors' efforts will not be focused on newer accounts with a higher likelihood of payment.²¹

The state's *Toolkit* notes that policies and procedures should be in place and followed to ensure that past due receivables are followed-up promptly and in a manner that is cost effective. It also states that the procedures should include collection activities to be performed and time frames for each activity, and the roles and responsibilities for all staff involved in the process.

As noted earlier, Finance has created draft Revenue Collection Procedures that contain guidelines on when to refer accounts to its outside collections agencies, when to write off accounts, as well as other information to guide the collection process. However, these do not always provide criteria or time frames for when specific collection activities should be conducted. As accounts will continue to become delinquent, such time frames and criteria are important to ensure that collections remain timely and focused on the most cost effective accounts to pursue.

In addition, Finance needs a strategy to address its backlog of old accounts so that it can more consistently pursue delinquent accounts through liens, small claims court, or other means on a more timely basis.

²⁰ The statute of limitations limits the amount of time during which legal action can be pursued on debt. It is generally four years but may vary based on the activity giving rise to the debt.

²¹ Between 2011 and 2013, of invoices paid after 30 days from the date of invoice, about three quarters were paid within six months. Of those paid more than one year later, often payment was the result of prior collection activity such as putting a lien in place or referring the account to the outside collections agency.

Recommendation #8: To maximize collections, Finance should finalize and implement its revenue collection procedures (City Administrative Policy). These should include criteria and time frames to pursue specific collections activities, including:

- Automatically sending accounts to the City's outside collections agencies
- Pursuing legal remedies
- Liening properties
- Writing off old accounts

The procedures should also identify supervisory or management roles for reviewing delinquent accounts and collections activities.

Recommendation #9: The Finance Department should determine a target workload for its collections staff and reduce the current backlog of accounts receivable to reach this target accordingly. This could be achieved by writing off old accounts, sending accounts to its outside collections agency, reassigning staff within the revenue management division on a short-term basis, or other appropriate measures.

The City Can Enhance Revenue Collection by Utilizing Additional Collection Tools

As described earlier, liens can be placed on delinquent accounts that arise from work completed by the City. In addition to the three active lien programs currently in place (abatements, administrative remedies, and sidewalk repairs), the City's street tree program was approved for liens in 2009 by the City Council. However, Finance did not make efforts to set it up until recently – four years later. On November 4, 2014, Finance obtained City Council's approval to begin the first lien hearing process for street trees. Also, Finance and the City Attorney's Office are currently exploring setting up a fifth lien program for neglected and vacant homes.

Recommendation #10: To aid the collection process, the Finance Department should work with the City Attorney's Office to explore expanding lienable activities, such as with Planning, Building, and Code Enforcement's neglected and vacant homes program.

In addition to enabling the City's collectors to obtain information about assets (employment, bank account, tax filing, and property information), providing them the ability to report to credit agencies and intercept tax refunds, having a small claims judgment allows additional collection tools for collectors to utilize when other collection avenues have been unsuccessful. These include garnishing wages, levying banks, till tapping (where a sheriff takes money out of a business' cash register) and suspending driver's licenses (for traffic-related debts). Other cities with in-house collections staff, such as Oakland and San Diego, have incorporated regular use of these tools in their collections process. These additional post-judgment collection tools are currently not utilized by Finance. In some cases, the City must pay a fee or other costs to utilize them and they may not always be cost-effective. However, when they are deemed cost-effective, Finance should employ these post-judgment collection tools as appropriate to increase chances of successful collections.

Recommendation #11: To aid the collection process on delinquent accounts against which it has received a court judgment and which other collection tools have been unsuccessful in resolving, the Finance Department should develop guidelines for when additional post-judgment tools such as wage garnishments, bank levies, till taps, and driver's license suspensions may be used.

The City Can Make Payments Easier for Customers

Best practices include making payment options as convenient as possible.

Offering Online Payment Options

As described in recent audits of the City's Development Services²² and Customer Call Handling²³, the City offers limited online payment options. This is also true for invoices or accounts owing in two of the City's billing systems: Rev Plus and FireHouse. According to Finance, Rev Plus' system did not include an online payment option; the upgraded Rev Results system may make establishing an online payment system possible. In addition, it appears that an online payment option is possible for FireHouse; however, such an option has not been established to date.

Recommendation #12: The Finance Department should work with:

- **The Information Technology Department to develop an online payment option for accounts owing to the City and managed in Revenue Results**
- **The Fire Department and Information Technology to develop an online payment option for invoices billed through FireHouse.**

²² See www.sanjoseca.gov/DocumentCenter/View/35204

²³ See www.sanjoseca.gov/DocumentCenter/View/33948

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Finding 4 Better Departmental Coordination Can Lead to Improvements Across the Entire Revenue Collection Cycle

Summary

Under the City Charter, the Director of Finance is charged with receiving or collecting monies due to the City. Under this authority, Finance conducts collection activities and tracks delinquent invoices owed to the City. However, some departments conduct their own collection activities on delinquent accounts. We recommend Finance formally delegate authority to those departments that conduct these activities, and work with departments throughout the City to update their procedures to ensure there are proper controls over collection activities. We also recommend improving the software interfaces between departmental billing systems and Finance's collections software and conducting regular reviews to monitor collection efforts and identify potential problems.

Finance Should Work With Line Departments to Update Procedures for Billing and Collection Activities

Under the City Charter, the Director of Finance is charged with receiving or collecting monies due to the City. As noted in Findings 1 and 2, the actual billing for services or citations is conducted by line departments across the City. Line departments who bill for services, in most cases, have procedures in place for issuing bills (see Appendix A). However, these procedures vary greatly across departments. Some include timeliness goals and identify responsible parties. Others are primarily data entry procedures to enter billing information into Rev Plus or some other billing system.

As it is ultimately responsible for receiving and collecting monies due to the City, Finance has developed a draft Citywide policy on billing and collections detailing expectations for departments on what their billing procedures should include.²⁴ Under these guidelines, departments are expected to have procedures that will ensure proper controls are in place over billing activities. This includes proper segregation of duties, use of number-controlled invoices, timeliness goals, and others. This may also result in more consistent billing across the City. To ensure that these expectations are met and improvements are achieved, we believe that Finance should require departments submit their updated procedures and review them for compliance with the Citywide policy.

²⁴ Draft City Administrative Policy *General Guidelines for Accounts Receivable/Revenue Collection Procedures*.

Recommendation #13: To ensure that department-level procedures include proper controls over billing activities and provide for more consistent billing across the City, the Finance Department should include in its final Citywide accounts receivable/revenue collection policy (City Administrative Policy) the requirement that departments submit their billing procedures to Finance for review and approve such procedures upon compliance with the policy.

Some Departments Conduct Their Own Collection Activities, Including Waiving Fees or Fines

Under its City Charter authority, Finance conducts collection activities and tracks amounts owed to the City from delinquent invoices. For delinquent invoices related to line department services or citations, this is generally done within Rev Plus, the City's primary collections software.²⁵

For non-Rev Plus accounts, collections activities are conducted and documented directly in line department billing systems. For two of these systems (PBCE's AMANDA system and Fire's FireHouse system), it is Finance who follows up and conducts collections. In two other systems (the Airport's PropWorks system and the Library's Sierra system), it is line department staff who follows up on delinquent accounts and conducts collections activities.²⁶

- Airport – As many of the Airport's invoices are issued to recurring customers, their collections work may be limited to reaching out to that customer (it should be noted that the collection rate on Airport invoices in 2013 was more than 99 percent). In very difficult cases, they will forward the account to Finance to pursue. Airport staff can also make adjustments to accounts with approval of a supervisor. This may include fixing erroneous invoices or crediting accounts when there is a dispute. For example, in one instance, the Airport agreed to accept 50 percent of the outstanding balance owing on a disputed invoice and credit back the remaining balance (in this instance the credit back totaled roughly \$2,600).
- Library – The Library conducts all of its own collection activities on library fines for overdue, lost, or damaged materials. This includes library staff within the branch libraries receiving money for fines, setting up payment plans, and waiving fines altogether. In addition, the Library

²⁵ As discussed later, even though bills may not originate in Rev Plus, the data will be transferred into Rev Plus through a data transfer or interface developed by the City's Information Technology Department.

²⁶ For the Airport, there is one exception. Ground transportation citations and fines are uploaded into Rev Plus and Finance conducts collections on these if they become delinquent. These account for a very small percentage of the Airport's revenues.

contracts with its own collections agency to pursue outstanding fines for accounts meeting certain criteria (see below for more detail). The Library also writes off old fines when they have been outstanding for seven years.

Finally, DOT staff in the street tree and sidewalk program can waive some repair and replacement (concrete), grind, or tree fees under certain limited circumstances prior to such invoices being uploaded to Rev Plus.

Procedures for Canceling or Adjusting Incorrect Invoices Varies Across Departments

When a line department determines that an account within Rev Plus is in error (e.g., wrong party billed, incorrect address or charge), departments follow specific procedures, including obtaining Finance Department approval, for canceling the invoice. For cancellations greater than \$5,000, the approval of the Director or Assistant Director of Finance is required.

For non-Rev Plus accounts which are maintained in department billing systems, line department staff often are able to cancel or adjust erroneous invoices without Finance approval. The departments where this occurs include the Airport; Animal Care and Services division of Public Works²⁷; Fire; the Library; and Planning, Building, and Code Enforcement.

Finance Should Work with Line Departments to Ensure Proper Controls Are In Place Over Amounts Owed to the City

According to the GFOA, management should establish standard internal controls that are properly documented and followed by departments generating the receivable, receipting the payment, and performing collection activities on delinquent accounts. Currently, not all departments have written procedures for conducting collections activities or for cancellations or adjustments of invoices.

As Finance is ultimately responsible for receiving and collecting monies due to the City under the City Charter, we believe that Finance should work with line departments to develop written procedures for collections activities and invoice cancellations that may occur in their respective programs.

²⁷ Invoices for license citations from the Animal Care and Services system, Chameleon, are uploaded into Rev Plus; however, this data transfer happens only after multiple reminders are sent out through Chameleon. During this time, staff may cancel the invoice if it is found to be in error or for some other reason (e.g., individual no longer owns previously licensed pet).

Recommendation #14: As it finalizes its Citywide accounts receivable/revenue collection procedures (City Administrative Policy), the Finance Department should delegate to selected departments the authority for collections activities or to cancel erroneous invoices within departmental billing systems with the requirement that departments develop or update existing written policies and procedures that:

- Ensure timely customer notification of past due accounts
- Identify the circumstances for when it is appropriate to waive, adjust, or write off amounts owing to the City
- Establish approval levels or limits for waivers and cancellations
- Track total adjustments and write offs for management review.

The Library Could See Greater Revenues if it Fully Utilized its Contract for Collecting on Outstanding Fines

Currently, the Library utilizes a library-specific collections agency to collect outstanding library fines.²⁸ The Library will only refer an account to the agency under certain criteria, specifically:

- Balance owing is greater than \$50 (excluding fines only balances),
- One or more materials remains outstanding, and
- Balance is over 120 days overdue.

Upon referral, the Library patron is charged a \$10 collection fee to cover the cost of the collection agency. In the last three fiscal years, the Library has referred on average about 4,400 accounts per year for a total cost to the Library of about \$39,000 per year.²⁹ The annual contract has called for a not-to-exceed amount of \$77,700.

In order to maintain access to Library materials, it is crucial for the Library to have its materials returned. Utilizing a Library-specific collections agency is one means of achieving that objective. The Library's preference for returned materials is reflected in the way it handles collection agency referrals: only accounts with \$50 or more in material balances (i.e., cost of a lost book) are referred. According to the Library, if a patron returns his/her materials after being referred to collections, the agency will not report the patron to credit

²⁸ According to a report from the Library's collections agency, out of \$9.8 million submitted for collections, \$2.17 million in cash has been recovered and \$584,000 in materials recovered since they started working together in 1997.

²⁹ While a \$10 collection fee is added to delinquent accounts sent to collections, the Library itself pays \$8.95 per account referred.

agencies, but will continue to pursue that account through letters and phone calls until the balance is cleared.

However, in the interest of equity, both patrons owing \$50 in materials and patrons owing \$50 in fines (or have a balance due but returned their book) should be sent to collections. Both patrons owe a debt to the Library. Late charges/fines are meant to be an enforcement tool and reflect that the Library is serious about maintaining access to its materials for all of its patrons. Furthermore, the existing policy is unfair to patrons that pay their fines or return their materials on time.

The collection agency contract could be restructured and maximized if the Library wants its books back and wants them back timely. As of August 2014, the Library has \$5.7 million in outstanding balances (154,000 patron accounts) which were levied in the past four years (and another \$1.9 million in older accounts residing in Library's Sierra system). \$4.3 million (23,000 patron accounts) of the total are currently in collections. \$1.4 million in account balances (or 13,000 patron accounts) over \$50 have not been sent to collections because they did not meet the criteria for referrals.³⁰ Based on historic referrals to the collections agency, we estimate that the Library could refer an additional 4,200 accounts under its current agreement. If the referral threshold were lowered to \$25, an additional \$1 million or 27,000 patron accounts would be eligible for collections.

Recommendation #15: The Library should lower their threshold for collection agency referrals and expanding referrals to include fines only accounts in order to maximize the number of books returned and revenue recovered.

The City Utilizes Multiple Billing Systems Across Departments

As noted in the Background, there is not one central billing system in the City. Line department invoices are sometimes entered directly into Rev Plus and in other cases generated by department billing systems.³¹ In the absence of one, central billing system to track outstanding invoices, Finance and the City's Information Technology Department have created a series of interfaces or data transfers between most department billing systems and Finance's collections software, Rev Plus. The purpose of this is to track outstanding accounts as centrally as possible. However, there are some billing systems in the City that do not interface with Rev Plus (see Exhibit 10).

³⁰ Due to reporting limitations in Library's database, it is not possible to identify how much of the \$1.4 million is for fines only accounts or for accounts with only one material checked out.

³¹ The departmental billings systems we reference in this finding are in many cases better described as work order or other type of management systems that have a billing function or module. They often do not include a collection component that easily allows staff to document collector activities.

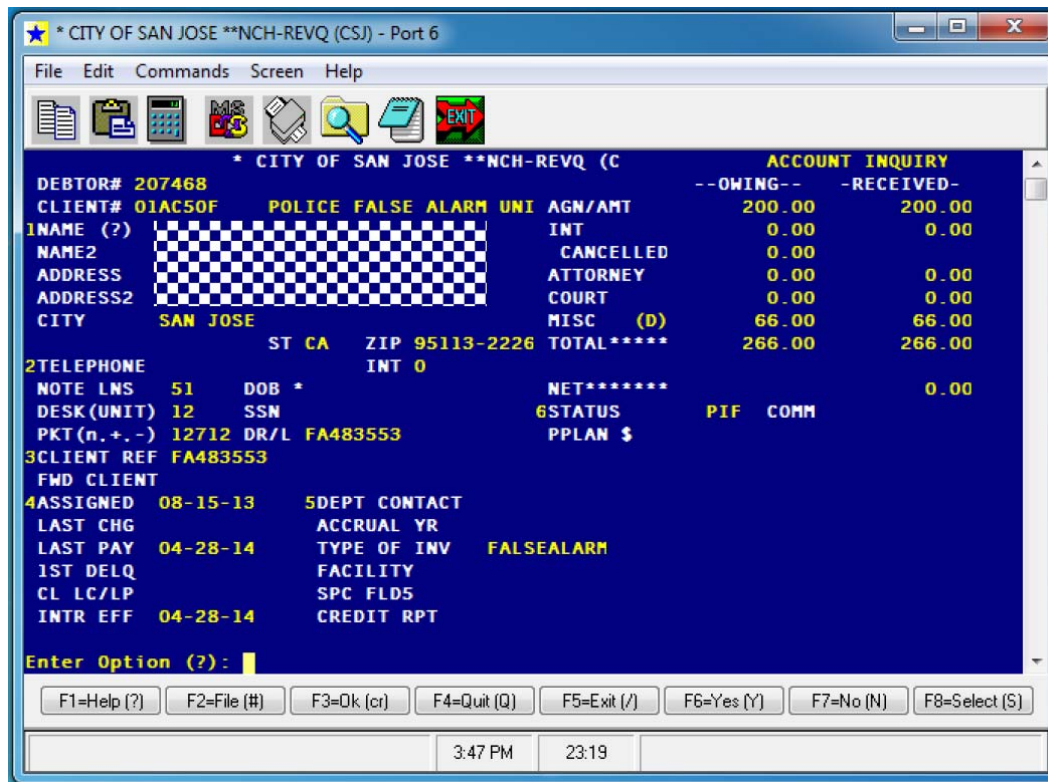
Exhibit 10: Departmental Billing Systems

Department	Billing Systems	Existing Interface with Rev Plus
Airport	PropWorks	No
	Airport Administrative Citations (Admin Cites)	Yes
Environmental Services	Revenue Plus	Yes
	EEDMS (watershed protection citations)	Yes
Planning, Building, and Code Enforcement	AMANDA	No
	Code Enforcement System (CES)	Yes
	Revenue Plus	Yes
	Excel worksheets	No
Fire	FireHouse	No
Public Works	Revenue Plus	Yes
Public Works – Animal Care and Services	Chameleon	Yes
	Revenue Plus	Yes
Transportation	Revenue Plus	Yes
	TWIG (sidewalks and trees)	Yes
Library	Sierra	No
Police	AlarmTrack (false alarms)	Yes
	ACRS (permit unit administrative citations)	Yes
	Revenue Plus	Yes
Human Resources	PeopleSoft	No
	Revenue Plus	Yes
	Excel worksheets	No

Source: Auditor interviews with City departments.

Because of system limitations in Rev Plus, only basic account information such as name, address, phone number, type of charge, and amount of charges is included in the data transfers (see Exhibit 11). Other background information which may be useful when a collector communicates with a debtor is not available. For example, it is not possible to look up service date and citation or service details in Rev Plus. Collectors must contact the originating department themselves or refer the customer to the department in order to obtain answers.

Exhibit 11: Snapshot of Revenue Plus Account Inquiry Screen



Source: Revenue Plus screenshot.

According to Finance, one of the most common questions that collectors receive is, “Why did I get this bill?” While not being able to provide an immediate response may not discourage payment, it does delay resolution, risk poor customer service as the individual is transferred from person to person, and require more staff time.

As Finance moves from Rev Plus to its upgraded collection system, Rev Results, it is expected that there will be more fields available to make this information more accessible to collections staff. Rev Results offers a more accessible layout (see Exhibit 12), the ability to automate processes such as when to refer certain account types to an outside collection agency or set parameters for work lists, and an option for attachments.

For those systems that operate completely separate from Rev Plus (PBCE’s AMANDA, Fire’s FireHouse, Airport’s PropWorks, and Library’s Sierra), data is not transferred and collection activity is conducted in those systems. Since these are not collection programs, it is hard for Finance to track collections activities, automatically generate follow up notices, and pull collection reports such as account aging reports (AMANDA, Sierra).

Accounts Receivable

A single collection system would enable collections staff to identify whether someone should be considered for a payment plan or waiver (e.g., whether there are other outstanding accounts, or the debtor has a history of nonpayment), or withholding permits, licenses, or other services until outstanding invoices are paid.

Exhibit I2: Screenshot of Revenue Results Debtor Screen

The screenshot displays the 'Revenue Results' software interface for a debtor named Chanelle T Lewis (ID 15227). The window title is 'Administrator - Clark County Treasurer - Revenue Results'. The main area shows the debtor's information, including their address (2567 Main Street, Portland, OR 97207), phone number (503) 696-4499, and date of birth (5/12/1972). A 'Debtor summary' table shows a total owing of \$1,942.92. An 'Account summary' table shows a balance of \$128.26. A table of accounts is also visible, listing utility and court accounts with their respective balances and statuses. The interface includes a search bar, a menu bar, and a sidebar with various actions like 'New Debtor', 'New Account', and 'Enter Payments'.

Debtor summary	
Total owing:	\$1,942.92
Total paid:	\$0.00
Total adjusted:	\$1.00
Total cancelled:	\$0.00
Balance:	\$1,942.92

Account summary	
Number:	15320
Owed amount:	\$128.26
Adjusted amount:	\$0.00
Pad amount:	\$0.00
Cancelled amount:	\$0.00
Balance:	\$128.26

Forwar...	Type	Entered Date	Balance	Status	Case #	Identification #
No	Utility	7/27/2007	\$128.26	Active	8546	
No	Court	7/27/2007	\$1,568.67	Active	856371	
No	Utility	7/27/2007	\$245.99	Active	7854	

Source: Revenue Results demonstration (not real account).

Recommendation #16: The Finance Department should work with the Information Technology Department to:

- **Improve the interface between department billing systems and Revenue Results so that key information, such as the service date and other details about the service or citation, that will aid in the collection process is transferred.**
- **Work with Planning, Building, and Code Enforcement and the Fire Department to develop an interface or some other means of transferring data from the departmental billing systems into Finance's collections software to better manage collections for these departmental billings.**

Recommendation #17: The Finance Department should include in its Citywide billing procedures (City Administrative Policy) a requirement that future departmental purchases of billing systems have the capability of interfacing with Finance's collections software.

Departmental Account Reviews Can Assist in Monitoring Collection Efforts and Identifying Potential Problems

Currently, reports of collection activities for individual department invoices are reviewed (or shared with departments) only upon request. Departments originating bills do not have access to the reports module in Rev Plus to generate their own reports to review collection rates or activities on their accounts. Also, Rev Plus' antiquated layout (dating to the 1980s) is not intuitive and is difficult to maneuver for the occasional user.

Regular dispersal and analysis of departmental status reports would have several benefits. First, regular reviews would aid Finance in monitoring collection efforts and identifying invoice types with low collection rates. According to an Accounts Receivable Review by a state of Virginia Task Force:

Agency A/R profiles can provide key input towards examining the processes behind debts, understanding how and why delinquencies occur and evaluating the best courses of action to reduce the incidence of delinquency and overpayment through process change.

In other words, reviews would help identify what causes or inhibits successful collections and enable a more targeted and collaborative effort at improvements. Increasing the use of account reviews would also facilitate assessment of individual collector and overall revenue collection performance. Supervisory and management review of delinquent accounts would ensure that staff acts timely on collection activities. In addition, regular account reviews would assist the budget process by better estimating future cash flows. Finally, account reviews would help departments remain informed about outstanding debts and enable them to use their own ties or relationships to encourage payment.

Recommendation #18: Once Revenue Results is implemented, the Finance Department should develop and implement procedures for periodic departmental account reviews to determine collection rates and assess performance of the revenue collection process. These results should be shared with departments to help identify potential problems and solutions to improve the revenue collection cycle.

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Conclusion

The City is supported by a variety of revenues, some of which result from line department activities and are billed to the City's residents, businesses, or other customers for later payment. Generally, the responsibility for issuing invoices lies with line departments providing services. The City can enhance revenue collections for invoiced revenues by improving its billing procedures to ensure its bills are more timely and accurate. In addition, Finance should also improve its procedures for collections and reduce its backlog of delinquent accounts. Finally, better coordination across departments can lead to improvements throughout the entire revenue collection cycle.

RECOMMENDATIONS

Recommendation #1: The Department of Transportation should work with the Police Department to develop and implement technology enhancements to the Police Department's records management system, including the following:

- Automate field data collection and electronic storage of the traffic collision reports and provide access to the data for use by the Department of Transportation.
- Implement changes in the records management system to collect and provide additional traffic collision data that would be used by Department of Transportation to electronically identify, categorize, and initiate inspection and repair of damaged City property.

Recommendation #2: The Finance Department should finalize and distribute Citywide billing guidelines (City Administrative Policy) and require departments to include timeliness goals in their departmental billing procedures.

Recommendation #3: The Human Resources Department should automate its invoicing process and provide easier payment options for employees.

Recommendation #4: As part of the Citywide accounts receivable guidelines (City Administrative Policy), the Finance Department should require departments to:

- a) Document how departments will identify the correct billable party(s) and the methodology for how invoiced charges are calculated, and
- b) Include a United States Postal Service "Address Correction Requested" endorsement for mailed invoices.

Recommendation #5: To ensure that the correct amount of penalties and interest are being assessed, the Finance Department should work with the Information Technology Department and/or the Revenue Results software vendor to:

- a) Update the penalty and interest table uploaded into Revenue Plus/Revenue Results to include billable programs which are not currently being charged interest.
- b) Correct current interest calculations to charge interest on penalties for fees and charges.

Accounts Receivable

Recommendation #6: The Finance Department should refund collection fees incorrectly charged during fiscal years 2011-12 through 2013-14 where possible.

Recommendation #7: As part of the Citywide accounts receivable guidelines (City Administrative Policy), the Finance Department should include guidelines on standard language surrounding the imposition of penalties and interest. Such language should explicitly state the amount of penalties and interest to be charged and the time frame for which they will be charged.

Recommendation #8: To maximize collections, Finance should finalize and implement its revenue collection procedures (City Administrative Policy). These should include criteria and time frames to pursue specific collections activities, including:

- Automatically sending accounts to the City's outside collections agencies
- Pursuing legal remedies
- Liening properties
- Writing off old accounts

The procedures should also identify supervisory or management roles for reviewing delinquent accounts and collections activities.

Recommendation #9: The Finance Department should determine a target workload for its collections staff and reduce the current backlog of accounts receivable to reach this target accordingly. This could be achieved by writing off old accounts, sending accounts to its outside collections agency, reassigning staff within the revenue management division on a short-term basis, or other appropriate measures.

Recommendation #10: To aid the collection process, the Finance Department should work with the City Attorney's Office to explore expanding lienable activities, such as with Planning, Building, and Code Enforcement's neglected and vacant homes program.

Recommendation #11: To aid the collection process on delinquent accounts against which it has received a court judgment and which other collection tools have been unsuccessful in resolving, the Finance Department should develop guidelines for when additional post-judgment tools such as wage garnishments, bank levies, till taps, and driver's license suspensions may be used.

Recommendation #12: The Finance Department should work with:

- The Information Technology Department to develop an online payment option for accounts owing to the City and managed in Revenue Results.
- The Fire Department and Information Technology to develop an online payment option for invoices billed through FireHouse.

Recommendation #13: To ensure that department-level procedures include proper controls over billing activities and provide for more consistent billing across the City, the Finance Department should include in its final Citywide accounts receivable/revenue collection policy (City Administrative Policy) the requirement that departments submit their billing procedures to Finance for review and approve such procedures upon compliance with the policy.

Recommendation #14: As it finalizes its Citywide accounts receivable/revenue collection procedures (City Administrative Policy), the Finance Department should delegate to selected departments the authority for collections activities or to cancel erroneous invoices within departmental billing systems with the requirement that departments develop or update existing written policies and procedures that:

- Ensure timely customer notification of past due accounts
- Identify the circumstances for when it is appropriate to waive, adjust, or write off amounts owing to the City
- Establish approval levels or limits for waivers and cancellations
- Track total adjustments and write offs for management review

Recommendation #15: The Library should lower their threshold for collection agency referrals and expanding referrals to include fines only accounts in order to maximize the number of books returned and revenue recovered.

Recommendation #16: The Finance Department should work with the Information Technology Department to:

- Improve the interface between department billing systems and Revenue Results so that key information, such as the service date and other details about the service or citation, that will aid in the collection process is transferred.
- Work with Planning, Building, and Code Enforcement and the Fire Department to develop an interface or some other means of transferring data from the departmental billing systems into Finance's collections software to better manage collections for these departmental billings.

Recommendation #17: The Finance Department should include in its Citywide billing procedures (City Administrative Policy) a requirement that future departmental purchases of billing systems have the capability of interfacing with Finance's collections software.

Recommendation #18: Once Revenue Results is implemented, the Finance Department should develop and implement procedures for periodic departmental account reviews to determine collection rates and assess performance of the revenue collection process. These results should be shared with departments to help identify potential problems and solutions to improve the revenue collection cycle.

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Appendix A

Department Policies and Procedures

Department	Billed Revenues	Billing Procedures	Collections Procedures (including adjustments and cancellations)
Airport	Airport tenant charges, landing fees, ground transportation citations, others	Department has written procedures for most billed revenues identifying staff responsibilities and timeframes for invoices to be issued. Ground transportation citation procedures are primarily data entry procedures.	Departmental procedures in place for processing payments on accounts. The Airport may issue credit memos for account corrections or for disputed accounts. There are no written credit memo guidelines; however, credit memos require approval by supervisor and Airport Finance section head.
Environmental Services	Reimbursements from tributary agencies for costs associated with the Regional Wastewater Facility, sanitary sewer connection fees (with Public Works), some recycled water users, watershed protection citations	The department has written procedures for billable activities. However, not all include timeliness goals. Some procedures identify staff responsibilities and others cover data entry and manual calculations.	Not applicable. Finance conducts collections on outstanding invoices. Environmental Services follows Finance procedures for adjustments or cancellations.
Fire	Fire permits and inspections	Written procedures are available for all billed programs (including manually generated late fees) and include information on staff responsibilities and billing timeframes.	Departmental invoice adjustment procedures detail approvals process and required documentation. Fire does not collect payments.
Human Resources	Leave benefits, COBRA payments, supplemental military pay, others	Procedures are only available for missed benefit deductions and covers preparations for billings.	There are no written procedures for department staff covering adjustments and cancellations in place for billings outside of Rev Plus or covering follow up activities on delinquent accounts. Once a bill is entered into Rev Plus, Finance handles collections and the department follows Finance procedures for adjustments or cancellations.
Library	Late fees, damaged/lost materials, expired hold charges	There are written procedures on how to apply expired hold charges, and informal procedures for damaged/lost materials. Late fees are automatically applied.	Department has documented general guidelines for waivers and payment plans. An outside collections agency conducts collections on outstanding invoices.

Department	Billed Revenues	Billing Procedures	Collections Procedures (including adjustments and cancellations)
Planning, Building, and Code Enforcement	Multiple housing permits, administrative citations, tobacco retail licenses, off sale alcohol permits, others	Most billable programs have written procedures. Some procedures cover data entry only. Others cover staff responsibilities and timeliness goals. The department is working on updating procedures for property-related billings.	For billings in AMANDA, there are written departmental procedures in place on how to process cancellations. These must first be approved by inspectors. Rev Plus billings follow Finance's adjustments and collections process.
Police	False alarm and permit fines, reimbursements for board ups (for damaged property), other miscellaneous activities	Department has procedures for most billable activities; however, these are primarily data entry procedures and do not include timeliness goals and may not identify staff responsibilities.	Not applicable. Finance conducts collections on outstanding invoices. The Police Department also follows Finance procedures for adjustments or cancellations.
Public Works	Utility excavations, sanitary sewer connection fees (with ESD), other miscellaneous activities	Department has procedures for most billing activities. As a result of this audit, the department updated its procedures for billing sanitary sewer connection fees. It does not appear that timeliness goals are included for all billable activities.	Not applicable. Finance conducts collections on outstanding invoices. Public Works follows Finance procedures for adjustments or cancellations.
Public Works - Animal Care and Services	Pet licenses, citations, reimbursements from other jurisdictions, veterinarian fees, others	Department has written procedures for most billed revenues. Procedures focus on data entry and do not include timeliness goals.	Departmental procedures in place for processing receipts in Chameleon. Informal procedures for adjustments or cancellations in Chameleon. No supervisory review required. Billing agreements that end up in Rev Plus follow Finance's guidelines for adjustments.
Transportation	Sidewalk and tree repair citations, cost of repairs for City infrastructure resulting from traffic collisions, taxi stand rentals, other miscellaneous activities	Department has procedures for most billable activities. As a result of this audit, the department has updated its procedures for updating its charge sheets annually to ensure accurate bills. Procedures do not include timeliness goals.	Finance conducts collections on outstanding invoices. DOT also follows Finance procedures for adjustments or cancellations. Staff in the sidewalk and street tree program waive fees under limited circumstances; there are no written procedures for these fee waivers.

Memorandum

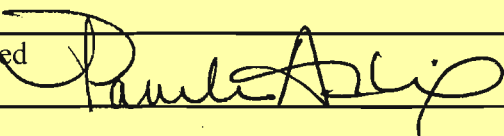
TO: Sharon W. Erickson
City Auditor

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: November 24, 2014

Approved



Date

12/01/14

SUBJECT: RESPONSE TO THE AUDIT "ACCOUNTS RECEIVABLE: THE CITY CAN ENHANCE REVENUE COLLECTIONS BY IMPROVING ITS BILLING AND COLLECTION PRACTICES"

BACKGROUND

The Administration has reviewed and agrees with the recommendations contained in the "Accounts Receivable: The City Can Enhance Revenue Collections by Improving its Billing and Collection Practices" (the "Accounts Receivable Audit" or "Audit") report prepared by the City Auditor ("Auditor").

RECOMMENDATIONS AND ADMINISTRATION'S RESPONSE

The following are the Administration's response to each recommendation.

Overall Comment

The Administration is in consensus with the eighteen recommendations made in the Accounts Receivable Audit. Staff from impacted Departments and the Finance Department will take the initiative to launch the following efforts in response to the Audit:

- 1) **Accounts Receivable/Revenue Collection Policy** – The Administration developed the General Guidelines for Accounts Receivable/Revenue Collection Policy that will be incorporated into the City Administrative Policy Manual. Many of the recommendations in the Audit are addressed through the development and implementation of this Policy. Attached to the Administration's response is the draft Policy with notations on which elements address specific audit recommendations.
- 2) **Billing Activity** – The Administration will implement changes to billing procedures to reduce the likelihood of errors and to provide more informative billings.
- 3) **Technology** – The Administration will require that future departmental purchases of billing systems have the capability of interfacing with Finance's Accounts Receivable collections software.

In addition, the Finance Department is currently in the implementation stage (go-live in early 2015) of transitioning from Revenue Plus to Revenue Results Accounts Receivable System to improve and increase functionality.

The following is the Administration's response to the eighteen recommendations in the Accounts Receivable Audit.

Recommendation #1: The Department of Transportation should work with the Police Department to develop and implement technology enhancements to the Police Department's records management system, including the following:

- Automate field data collection and electronic storage of the traffic collision reports and provide access to the data for use by the Department of Transportation.
- Implement changes in the records management system to collect and provide additional traffic collision data that would be used by Department of Transportation to electronically identify, categorize, and initiate inspection and repair of damaged City property.

Administration Response: The Administration agrees with this recommendation and the Finance Department will coordinate with the Department of Transportation and the Police Department to determine the feasibility of developing and implementing the recommended technology enhancements to the Police Department's record management system.

Recommendation #2: The Finance Department should finalize and distribute Citywide billing guidelines (City Administrative Policy) and require departments to include timeliness goals in their departmental billing procedures.

Administration Response: The Administration agrees with this recommendation and has drafted the General Guidelines for Accounts Receivable / Revenue Collection Policy which includes the requirement for departments to include timeliness goals in their departmental billing procedures.

Recommendation #3: The Human Resources Department should automate its invoicing process and provide easier payment options for employees.

Administration Response: The Administration agrees with this recommendation. The Human Resources ("HR") Department currently interfaces all invoices into Revenue Plus (and Revenue Results in the future). HR staff will communicate the payment process to employees and employees will be able to submit payment in one check for multiple benefits.

Recommendation #4: As part of the Citywide accounts receivable guidelines (City Administrative Policy), the Finance Department should require departments to:

- a) Document how departments will identify the correct billable party(s) and the methodology for how invoiced charges are calculated, and
- b) Include a United States Postal Service "Address Correction Requested" endorsement for mailed invoices.

Administration Response: The Administration agrees with this recommendation and the Finance Department has drafted a City Administrative Manual Policy to include how departments will identify the correct billable party(s), the methodology for how invoiced charges are calculated, and the requirement to include a United States Postal Service "Address Correction Requested" endorsement for mailed invoices.

Recommendation #5: To ensure that the correct amount of penalties and interest are being assessed, the Finance Department should work with the Information Technology Department and/or the Revenue Results software vendor to:

- a) Update the penalty and interest table uploaded into Revenue Plus/Revenue Results to include billable programs which are not currently being charged interest
- b) Correct current interest calculations to charge interest on penalties for fees and charges.

Administration Response: The Administration agrees with this recommendation. Audit staff referred this matter to Finance during the audit and the error has since been corrected and this audit recommendation should be considered implemented.

Recommendation #6: The Finance Department should refund collection fees incorrectly charged during fiscal years 2011-12 through 2013-14 where possible.

Administration Response: The Administration agrees with this recommendation and will review in more detail with the City Attorney's Office to identify the process to refund incorrectly charged collection fees.

Recommendation #7: As part of the Citywide accounts receivable guidelines (City Administrative Policy), the Finance Department should include guidelines on standard language surrounding the imposition of penalties and interest. Such language should explicitly state the amount of penalties and interest to be charged and the time frame for which they will be charged.

Administration Response: The Administration agrees with this recommendation. As penalties and interest can vary by program, the City Administrative Policy will require Departments to include language on invoices to explicitly state the penalties and interest to be charged and the time frame for which they will be charged.

Recommendation #8: To maximize collections, Finance should finalize and implement its revenue collection procedures (City Administrative Policy). These should include criteria and time frames to pursue specific collections activities, including:

- Automatically sending accounts to the City's outside collections agencies
- Pursuing legal remedies
- Liening properties
- Writing off old accounts

The procedures should also identify supervisory or management roles for reviewing delinquent accounts and collections activities.

Administration Response: The Administration agrees with this recommendation and has included the criteria and time frames in the City Administrative Policy.

Recommendation #9: The Finance Department should determine a target workload for its collections staff and reduce the current backlog of accounts receivable to reach this target accordingly. This could be achieved by writing off old accounts, sending accounts to its outside collections agency, reassigning staff within the revenue management division on a short-term basis, or other appropriate measures.

Administration Response: The Administration agrees with this recommendation and the Finance Department will develop a strategy to reduce the number of old accounts to the extent resources are available.

Recommendation #10: To aid the collection process, the Finance Department should work with the City Attorney's Office to explore expanding lienable activities, such as with Planning, Building, and Code Enforcement's neglected and vacant homes program.

Administration Response: The Administration agrees with the recommendation and the Finance Department will work with the City Attorney's Office to explore the possibility of expanding lienable activities to the extent legally permissible, such as with Planning, Building, and Code Enforcement's neglected and vacant homes program.

Recommendation #11: To aid the collection process on delinquent accounts against which it has received a court judgment and which other collection tools have been unsuccessful in resolving, the Finance Department should develop guidelines for when additional post-judgment tools such as wage garnishments, bank levies, till taps, and driver's license suspensions may be used.

Administration Response: The Administration agrees with this recommendation and the Finance Department has developed criteria for additional post-judgment tools and this audit recommendation should be considered implemented.

Recommendation #12: The Finance Department should work with:

- The Information Technology Department to develop an online payment option for accounts owing to the City and managed in Revenue Results
- The Fire Department and Information Technology to develop an online payment option for invoices billed through FireHouse.

Administration Response: The Administration agrees with this recommendation and online payment options for Revenue Results will be reviewed with the Information Technology Department. FireHouse currently does not have an online payment capability; however, the Finance Department will work with the Fire Department and Information Technology to explore the ability and feasibility to develop an online payment option.

Recommendation #13: To ensure that department-level procedures include proper controls over billing activities and provide for more consistent billing across the City, the Finance Department should include in its final Citywide accounts receivable/revenue collection policy (City Administrative Policy) the requirement that departments submit their billing procedures to Finance for review and approve such procedures upon compliance with the policy.

Administration Response: The Administration agrees with this recommendation and the Finance Department has included the requirement in the City Administrative Policy for departments to submit their billing procedures, including any future changes to the procedures, to Finance for review and approval.

Recommendation #14: As it finalizes its Citywide accounts receivable/revenue collection procedures (City Administrative Policy), the Finance Department should delegate to selected departments the authority for collections activities or to cancel erroneous invoices within departmental billing systems with the requirement that departments develop or update existing written policies and procedures that:

- Ensure timely customer notification of past due accounts
- Identify the circumstances for when it is appropriate to waive, adjust, or write off amounts owing to the City
- Establish approval levels or limits for waivers and cancellations
- Track total adjustments and write offs for management review

Administration Response: The Administration agrees with this recommendation and the Finance Department has included the requirement to update or develop written policies and procedures for collections activities. The evaluation of the appropriateness of delegation of authority to individual departments will be based on a comprehensive evaluation of appropriate internal controls and ability for departments to ensure sufficient management review and oversight.

Recommendation #15: The Library should lower their threshold for collection agency referrals and expanding referrals to include fines only accounts in order to maximize the number of books returned and revenue recovered.

Administration Response: The Administration agrees on the importance of maximizing the amount of materials returned and revenue recovered. The Library will assess the impact of this recommendation on Library customers and usage and make appropriate adjustments.

Recommendation #16: The Finance Department should work with the Information Technology Department to:

- Improve the interface between department billing systems and Revenue Results so that key information, such as the service date and other details about the service or citation, that will aid in the collection process is transferred
- Work with Planning, Building, and Code Enforcement and the Fire Department to develop an interface or some other means of transferring data from the departmental billing systems into Finance's collections software to better manage collections for these departmental billings

Administration Response: The Administration agrees with this recommendation and the Finance Department is currently working with Information Technology on these interface issues. In addition, the number of fields in Revenue Results will be expanded and the number of fields has been added in the test data base. The Finance Department will address this issue with Planning, Building, Code Enforcement and the Fire Department.

Recommendation #17: The Finance Department should include in its Citywide billing procedures (City Administrative Policy) a requirement that future departmental purchases of billing systems have the capability of interfacing with Finance's collections software.

Administration Response: The Administration agrees with this recommendation and the Finance Department has included the requirement that future departmental purchases of billing systems have the capability of interfacing with Finance's collections software in the City Administrative Policy.

Recommendation #18: Once Revenue Results is implemented, the Finance Department should develop and implement procedures for periodic departmental account reviews to determine collection rates and assess performance of the revenue collection process. These results should be shared with departments to help identify potential problems and solutions to improve the revenue collection cycle.

Administration Response: The Administration agrees with this recommendation and the Finance Department will develop and implement procedures for periodic departmental account reviews in Revenue Results.

COORDINATION

This memorandum has been coordinated with the Department's of Transportation, Police, Library, Human Resources and Planning, Building and Code Enforcement Departments and the Office of the City Attorney.

CONCLUSION

The Audit surfaced and identified issues regarding the Accounts Receivable billing and collection practices. The eighteen recommendations speak to the need for clarification and documentation of the City's policies and procedures related to Accounts Receivable. The Administration will work to address and implement these recommendations, many of which are addressed with finalizing the general guidelines for Accounts Receivable/Revenue Collection Policy.

The Administration would like to thank the City Auditor's Office for conducting this audit.


JULIA H. COOPER
Director of Finance

Attachment

For more information please contact, Julia H. Cooper, Director of Finance at (408) 535-7011.

General Guidelines for Accounts Receivable / Revenue Collection Policy

PURPOSE

To ensure sound financial management practices, the proper controls over revenues are imperative in accounts receivable management and general oversight over the various revenues collected. This policy ensures that revenues are collected fairly, equitably and timely. This policy provides best practices that have proven successful in developing efficient revenue management programs.

The City of San Jose invoices customers for fees, fines, taxes and services provided. This generates the need to establish accounts receivables and thereafter, a process to collect these receivables. It is incumbent on management to ensure proper controls exist over receivables. Sound financial management principles include the establishment of an allowance for doubtful accounts. Efforts should be made to pursue the timely collection of delinquent accounts. When such accounts are deemed uncollectible, they should be written-off as bad debt.

While these revenue collection guidelines are written in general terms and serve as a constructive blueprint to standardize the City's approach to its billing and collection functions, they allow flexibility as departments, upon consultation with the Finance Department, to develop specific policies and procedures that meet their unique operational requirements.

AUTHORITIES

Chapter 2.04 of Title 2 of the San Jose Municipal Code Section 2.04.2020A

“It is the goal of the Finance Department to collect all the revenues which are due to the City of San José as per the San José City Charter Section 806. Per Section 806, the functions of the Finance Department and the powers and duties of the Director of Finance shall, except as otherwise provided in Article XII of the Charter, receive or collect all monies or revenues due the City.”

POLICY

It is the administrative policy of the City of San José (“City”) to centralize the collection and maintenance of accounts receivable records in the Finance Department’s Treasury Division with daily recording controls in the Finance Department’s Accounting Division. The functions of the Finance Department and the powers and duties of the Director of Finance as stated in Article VII, Section 806 of the San José City Charter directs that *“the Finance Department shall, except as otherwise provided in Article XII of this Charter, receive or collect all monies or revenues due the City.”*

By using the City’s on-line accounts receivable system which provides real-time information, collection efforts can focus on reducing the average age of outstanding accounts resulting in the City’s realizing the benefits from receiving revenues promptly.

General Guidelines for Accounts Receivable / Revenue Collection Policy

RESPONSIBILITIES

All City employees who are responsible for recording and collecting accounts receivable.

Systems

To ensure future departmental purchases of billing systems have the capability of interfacing with Finance's collection software, the applicable Department, Information Technology Department and Purchasing staff should inform Finance senior staff when an implementation is being considered. Finance Department staff will work with Information Technology staff to develop an online payment option in all current and future systems, including Revenue Results. **(Rec #1, #14, #16, #17)**

Deposits

Collections should be recorded in an accounts receivable system and deposited timely.

Billing

Unless otherwise required per ordinance, resolution, or other factors, all initiated bills should have established terms (e.g., 30 days from bill date), Departments should include timeliness goals in their departmental billing procedures. Departmental billing procedures should be approved by the Department Director and sent to the Finance Department for review and approval. **(Rec#2, #13)**

In order to identify the correct billable party, Departments should utilize the property ownership tables updated weekly by the Information Technology Department based on a file received from the Santa Clara County Clerk-Recorder's Office. In addition, a United States Postal Service "Address Correction Requested" endorsement should be included on all outgoing envelopes for mailed invoices. **(Rec#4)**

Where feasible, Departments should include language on invoices to explicitly state the penalties and interest to be charged and the time frame for which they will be charged. In addition, Departments should develop or update existing written policies and procedures to ensure timely customer notification of past due accounts. **(Rec#7, #14)**

Internal Controls

All aspects of revenue recording and accounts receivable monitoring shall be subject to proper internal controls established by Finance management. Departmental internal control procedures should be approved by the Department Director and sent to the Finance Department for review and approval

General Guidelines for Accounts Receivable / Revenue Collection Policy

Accounts Receivable Collection

1. All accounts receivable should be recorded in a manner to permit an analysis of the aging of such receivables (e.g., <30 days, 30-60 days, etc.).
2. Finance Department will review accounts by department periodically for revenue collection rates and performance and will share this information with each department to better manage collection invoices. **(Rec#18)**
3. Finance Department will work with Information Technology Department to review the penalty and interest tables uploaded into Revenue-Plus and, if applicable, update the collection fee assessed to match the Council approved Fees and Charges Report **(Rec#5)**
4. For those accounts that become past due, the initiating and/or Finance Department should have specified practices that ensure proper delinquent notice is provided to customer and continued service is restricted, unless continuation of service is required by law or resolution, until such accounts are current.
5. Receivables aged over 120 days may be sent to the City's outside collection agency, unless it is subject to legal action or lien. **(Rec#8)**
6. Delinquent accounts subject to legal remedies should be brought to Small Claims Court, or referred to the City Attorney's Office or collection agency. **(Rec#8)**
7. Delinquent accounts where real property may be liened for non-payment should be included in established lien cycles established by Departments in coordination with Finance. **(Rec#8)**
8. Departments should develop or upgrade existing written policies to:
 - Identify the circumstances for when it is appropriate to waive, adjust, or write-off amounts owing to the City;
 - Establish approval levels or limits for waivers and cancellations; and
 - Track total adjustments and write-offs for management review. **(Rec#14)**

Allowance for Doubtful Accounts / Bad Debt Reserves

An allowance for doubtful accounts should be established to reflect the amount of the City's receivables that the Finance Department estimates will be uncollectible. The establishment of an allowance account ensures that the City's receivables are not overstated and that accounts deemed uncollectible are timely and accurately recorded in the correct period for financial reporting purposes

Write-Offs and Adjustments

Efforts should be made to pursue the timely collection of delinquent accounts. Write-offs should be performed annually to ensure that accounts receivable are fairly stated. Collection efforts should be exhausted prior to any write-offs. SJMC Section 4.24.030 requires the express consent of the City Council to write off as uncollectible debts that exceed \$5,000. Amounts under \$5,000 are written off with the approval of the Director of Finance. **(Rec#8)**