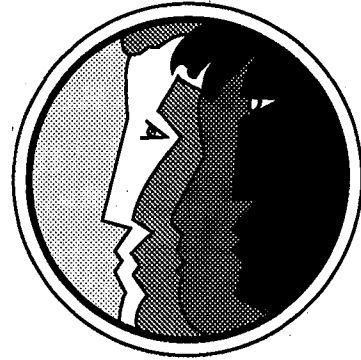


City of Berkeley



*Performance Audit of
Public Works - Solid Waste Management Division
Phase I - Refuse Collection Billing Operations*

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INTRODUCTION

We have completed an audit of Refuse Collection Billing operations. This report represents Phase I of our audit of Solid Waste Management. The audit was initiated as part of the City Auditor's 1993 Audit Work Plan. The Solid Waste Management Commission also requested the City Auditor perform an audit of the Refuse Fund in a letter dated April 27, 1992.

A copy of the Draft Report was provided to Public Works, Management and Administrative Services and Finance for their comments to our findings and recommendations. Where comments were provided we have summarized the response in the body of the report. The full text of their responses is included as an attachment.

SCOPE

The audit covered billing operations for refuse collection during the period July 1990 through November 1992. Operations were reviewed through 1) discussion with staff 2) review of written policies, procedures and operating criteria 3) a walk through of operations and 4) analytical and transaction testing of account activity and reports.

Estimates of unbilled services were prepared using financial reports provided by the Finance Department or customer service records provided by the Public Works Department. Detailed testing of these records was not performed to determine the accuracy of these reports. Estimates are qualified to the extent that they may reflect errors in the records.

The audit was conducted in accordance with the Government Auditing Standards prescribed by the U.S. Comptroller General.

BACKGROUND

The Solid Waste Management Division of Public Works provides management, administration, and field operations for refuse collection, disposal and recycling. The division serves approximately 22,000 residential and 7,500 commercial accounts. The adopted budget for FY 92/93 identified revenues of \$12,032,000, expenditures of \$12,142,805 and a staff of 102 full time equivalents. Refuse collection revenue is approximately \$11,000,000 of the budgeted revenues. Solid Waste Management (SWM) is accounted for in Enterprise Fund 820. An enterprise fund is used to account for operations in a manner similar to a private business. In an enterprise fund, the cost of providing goods and services to the public should be financed or primarily recovered through use charges.

Operating Division / Unit Responsibilities

Berkeley Municipal Code (BMC) 2.72.040 assigns the Public Works Department the function of supervision and control of the City refuse disposal program. A FY 1991/92 reorganization placed refuse and recycling operations under the Solid Waste Management Division of the Public Works Department. BMC 2.44.040 assigns the Finance Department the function of billing and collections for the City. The job description for the Deputy Director of Public Works states that he is responsible for coordinating departmental programs and operations with other City departments.

Responsibilities pertaining to refuse collection services and billings are summarized below.

Public Works Administration - Financial Services Unit: Provides the majority of administrative services. Here written requests (Work Orders) are prepared to initiate, change or cancel service in the billing system and Public Work's customer service records. This unit's operations are managed by a Supervising Acct. Office Assistant who reports to the Asst. City Manager and Deputy Director of Public Works.

Public Works - Transfer Station Unit: Provides and manages refuse collection and disposal operations. Administrative staff perform some administrative operations. This unit's operations are managed by the Refuse Superintendent.

Finance - License and Collections Division: Maintains billing records for commercial and residential property owners receiving refuse collection services. Changes to a property owner's billing records are processed and sent to Information Systems for input. License and Collections reviews the accuracy of billing information prepared by Information Systems, files reports and billing documents, and distributes billing information/statements. Most refuse billing information is transmitted to the County for inclusion on property tax bills. This division is also responsible for collection of delinquent accounts billed by the City. This division is managed by the License and Collections Manager.

Mgmt. & Admin. Services Dept. - Information System Division: Programs and maintains the billing system, and generates reports and billings. Inputs billing changes to property owners' accounts when received from License and Collections. This division is managed by the Information Systems Manager.

Curbside Collection Services

Residential and Commercial property owners are required by Berkeley Municipal Code (BMC) 12.34.030 and 12.34.040 to participate in the City's curbside collection program. This program requires most customers to use City refuse carts and place

them at the curb on collection days. Customers using bins or roll-off containers can provide their own or rent from the City. Customers using bins or roll-off containers do not have to place them at the curb, but bins are charged an additional fee for difficult handling. (See Appendix A for glossary of terms.)

Customers elect the size container, frequency and type of refuse collection service. Besides the basic curbside service, other services are available, usually at additional cost. Examples are backyard collection service for residential customers, unlocking gates to pickup a container, and cleaning bins and roll-off containers.

Berkeley Municipal Code 12.34.070 permits occupants who are physically or mentally disabled to be exempt from participation in the curbside program. These customers are given an exempt status and receive backyard service for the same fee as charged curbside customers.

Billing Authority

Berkeley Municipal Code 2.44.040 assigns the Finance Department responsibility for billing. BMC 12.32.150 provides that fees be established by the City Council.

Berkeley Municipal Code (BMC) 12.32.160 states the City may elect to bill property owners for refuse collection service as a special assessment on their property tax bills or the City can bill for these services. The Finance Department's policy is for refuse service to be billed on the property tax bill as a special assessment whenever possible. The License and Collections Manager is responsible for directing and coordinating the preparation, maintenance and verification of special assessment fees collected by the County.

The Berkeley Municipal Code does not specify when refuse fees are to be billed. However, according to the License and Collections Manager, billing information has to be provided to Alameda County by mid August each year. Ordinance 5968 N.S. states half the current fee is to be paid by December 11 to avoid a 10% late fee. The remainder is due by April 11 or an additional 10% late fee is to be assessed.

Special Charges

Special charges are fees in addition to the minimum fee for basic service. Their purpose is to 1) increase collection efficiency, 2) compensate the City for increased liability or additional labor and 3) encourage recycling. Examples of special charges are a 5% - 20% surcharge for three or more pickups per week, a 10% - 20% surcharge for difficult bin collections and a key charge (\$20 a month times number of pickups per week) for unlocking gates to access bins and containers. Most special charges became effective October 1, 1991 (Resolution 55,962 N.S.)

Billing Procedures

The billing system utilizes a Work Order (Triplicate form) to open a new account, to change information or level of service for an existing account, or to close an account. Work Orders are prepared primarily by Public Works Administration Unit or by License and Collections Unit in Finance (Residential Accounts only). Copies of the Work Orders (or substitutes) are provided to the Transfer Station staff who effects the service changes. The service changes, such as delivery of carts to customers are completed at the Transfer Station and the Work Orders are returned to Public Works Administration. The returned document is used to update the SANISERV data base, which maintains customer service information. The refuse drivers on the customer's collection routes are sent the hard copy of the Work Orders which they initial and date verifying the change in service. The originals and copies of the Work Orders are sent to Finance - License and Collections by Public Works Administration. A copy is also filed in Public Works Administration.

License and Collections utilizes the work orders to prepare adjustment forms (C&C) to increase or decrease account balances resulting from changes in level of service. They are also used to correct account balances. Adjustment forms and work orders are sent to Information Systems to update the billing records. They are then filed in L&C. Each time an adjustment form is prepared which increases a customer's outstanding balance, License and Collections manually prepares a billing notice.

The automated billing system, in Information Systems, maintains billing information for each refuse account (referred to as Sanitary Service Charge (SSC) Records). The system is used to provide Alameda County with annual billing information; to generate City billings and monthly reports; and to assess late fees (only for accounts billed by the City).

Finance - Treasury Unit receives payments from property owners billed by the county or City. These payments are credited to each account in the City's billing records.

The refuse collection billing system reviewed was on the Burroughs B1900 computer until September 1992 when it was taken out of service. Plans are to design a new billing program which can run on the new IBM AS400 system.

Service Records

Public Works Administration uses Work Orders to maintain a Dbase file, SANISERV. This file identifies service provided to each customer. Each container is a separate record, and information can be sorted by account number, service address, etc.. Work Orders are also used to maintain two other files, 1) a Work Order history for customers using bins and 2) driver route logs.

AUDIT FINDINGS

1. Special Charges Not Billed

Special charges of \$622,808 have not been billed for FY 91/92 and 92/93 services.

Fee Title	Fee	FY 91/92 Service	FY 92/93 Service	Estimate Of Fees Not Billed
Multiple Weekly Collections Surcharge	Applied To Carts, Roll-offs and Bins 3 Pickups wk - 5% 4 Pickups wk - 10% 5 Pickups wk - 15% 6 Pickups wk - 20% Effective 10/91	Not Billed: Rearloader Bins, Roll-offs and Carts	No Accts Billed	\$310,996
Bin Access Difficulty Surcharge	Applied To Bins Level 1 = 10% Level 2 = 20% Effective 10/91	Not Billed: Rearloader Bins	No Accts Billed	\$170,033
Key Charge	\$20/Month X # Of Wkly Collections Effective 10/91	No Accts Billed Except those with Frontloader Bins	No Accts Billed	\$120,120
Spin Charge	Applied To Bins \$25/Month X # of Wkly Collections Effective 10/91	No Accts Billed	No Accts Billed	\$525
Exception Surcharge	Applied To Residential Carts 100% Surcharge Per Cart Effective 10/91	Billed In FY92/93 Billed Twice In Error.	No Accts Billed	\$21,134
Debris Collection	Fee For Debris Carts \$.03125 X # gal per cart per month Effective 6/92	Fee Not In Effect	No Accts Billed	No Est. Of Lost Revenue Prepared
Total :				\$622,808

Charges which have not been billed are based on service information in the SANISERV.DBF data base file as of 11/13/92 extended by rates for special charges authorized by Council through Resolution 55,962 N.S.. Our estimate does not include key charges for accounts with carts only because it was not available in the data base.

Special charges were not billed because the automated billing system was not programmed to do so and a billing project was not completed.

Billing System

The automated billing system has not been programmed to bill "special charges" including the 100% Exception Surcharge which became effective October 1991. Codes to bill special charges have not been established and customer information pertaining to most special charges has not been entered into the system.

Billing Project

Public Works has only partially completed efforts initiated July 1991 whereby they would:

- identify accounts to be charged special charges through field visits.
- confirm level of service with customers.
- prepare the billing information for special charges.
- provide this billing information to Information Systems who was to a) include these special charges with the total annual fees computed by the billing system
b) prepare the billings.

The Refuse Superintendent presented the Assistant City Manager of Public Works a detailed rate implementation action plan dated July 8, 1991. This plan called for all special charges to be billed by October 1992. The deadline was not met.

On July 1, 1991 the Refuse Superintendent was also assigned responsibility, through project number 92.052 in the City's Project Management System, for identifying customers and preparing billing information so all special charges could be billed. The original project completion date of 1/31/92 was changed to 1/15/93 on 7/31/92 (Last report available).

Public Works Administration has prepared several billing files which were downloaded into the refuse billing system by Information Systems so some of the special charges could be billed. FY 92/93 bills included FY 91/92 surcharges associated with frontloader bins and exception charges totaling \$310,895 and \$17,436 respectively - one year late. Special charges to be applied to accounts with rearloaders have also been identified and customers notified, but service has not been billed. Efforts to bill special charges associated with cart service had not begun as of November 1992.

Project variance and status reports identify the cause of delays in implementing the special charges as follows:

- priority given to exemption and exception backyard reduction projects.

- clerical staffing shortages.
- priority to implement the Public Work's Management System.

In addition to special charges which were not billed or billed late, other concerns include:

- Billing Special charges has not been made a priority.
- Fees for prior year service are incorrectly prepared based on each customer's most recent service level, and not the customer's service level during the service period billed.
- Public Works is preparing Special Charges using service data from SANISERV, not the billing data base. Customer service in this data base is often different than the service billed by the billing system. (See Finding 10).
- Public Work's Administration staff preparing the billings are not preparing the billing data in an efficient way due to a lack of programming knowledge. Fees are mechanically calculated rather than by the billing program. Fee computations were not documented and work was not reviewed prior to fees being billed. Additionally, surcharges were incorrectly calculated. Surcharges were applied not only to the basic service fee but other special charges as well.
- SWM is preparing billing information which is the function of Finance - License and Collections and Information Systems. There is an insufficient segregation of duties with Public Works staff dealing with customers, initiating changes in service and preparing billings. This could allow errors or collusion to go undetected.
- Project 92.052 does not include establishing policies and procedures for billing special charges on an ongoing basis.
- Perhaps most important, Project 92.052 established by Public Works does not include programming the billing system and updating customer records so all special charges can be billed.

A coordinated written plan to modify the billing program and update the billing data base to automatically bill all special charges is lacking. Special charges have not been billed because Public Works did not establish and coordinate a joint effort between Finance, Information Systems and Public Works to ensure necessary fieldwork was performed and the billing system was modified to bill these fees.

The City has not received significant revenues and special charge policy objectives are not being advanced. Special charges are not being billed. Fees billed are not billed

timely, accurately or efficiently. Fees which are not billed after a year or more may become too old to be billed retroactively, and the revenue could be lost to the City.

Recommendation

Short Term

- A) The Public Works Department should discontinue preparing billing information. Priority should be given to completing field work.
- B) The Public Works Department should obtain an opinion from the Legal Department regarding the retroactive billing of fees.
- C) Information Systems should be given a project request to bill special charges not yet billed using the billing system. This project should be made a priority.

Long Term

- D) A Public Works Representative should be assigned the authority to arrange/monitor proposals and implementation of new SWM fees.
- E) Written procedures should be prepared which clearly assign responsibility between departments regarding the implementation of fees and ensure fees can be billed on the date they become effective. Future proposals for new fees should have an implementation plan.

Public Work's Response

"Taken together, these statements are incorrect and the "Estimated Lost Revenue" figure appears grossly inflated and based on an incomplete perception."

"Our records show that a dollar amount of approximately \$600,000 has not been billed yet."

Regarding Debris Collection, a billing system has to be set up to bill for this service.

"We generally agree with the Recommendations. We plan to get together with Finance and Information Systems on May 7, 1993 to incorporate these and other of the Audit's recommended actions into our overall plans. Some of the work is already underway."

Finance's Response

No response was provided.

Auditor's Response

Although Public Works states that they do not agree with our estimate that Special Fees totaling \$622,808 were not billed, their estimate of \$600,00 not billed is essentially the same. Therefore, it appears that there is concurrence that the City has not billed significant amounts for services during the last two years.

2. Roll-off Container Service Not Billed

Nine accounts with roll-off container service have not been billed an estimated \$745,000 for regularly scheduled collection service during the period FY 90/91 through FY 92/93. The SANISERV service data base identified only nine customers using a roll-off container as of 11/4/92. Most roll-off service was not billed even partially.

Billing errors and lost revenues occurred because:

- a) Accounts using roll-off containers with a compactor were not billed for the last three years. While the billing reports did have a refuse code identifying the level of compactor service, the billing system was never programmed to bill for this service. Accounts with a compactor, if properly billed, should typically be billed \$40,000 - \$60,000 annually.
- b) The billing system significantly underbilled accounts receiving roll-off container service. The system truncated container sizes over 1 digit, applied rates for a bin instead of a roll-off container or did not bill. For example, a 30 yd roll-off container was billed as a 3 yd. bin. Testing of roll-off accounts and review of billing code information provided during the audit indicates there are no codes for the billing system to identify a roll-off container and bill for this service. For some accounts, roll-off service was not billed at all.
- c) The size of a customer provided roll-off container is obtained from the customer, and there is currently no written policy for the City to confirm container size. Often customers provide their own roll-off containers, and are required to do so when using a compactor with a roll-off container. In one instance, a customer understated the size of their refuse container to the City. This resulted in the City billing for a 6yd compactor for seven months when a 13yd compactor was in use. This customer's account was never billed for the additional service.
- d) Refuse codes which identify the level of service to be billed were often incorrect. Service in the billing and service records did not always agree with actual service. Four of the nine accounts had significant discrepancies. In one instance, Whole Foods Supermarket was provided service for a 20 yd roll-off compactor emptied once per week for the last three years. This level of service was

documented on the driver route log and SANISERV. However, no work orders could be found to initiate billing for this service, and this level of service was never billed. Whole Foods was billed for a 1 and/or 2 yd bin, however, it was common knowledge they were receiving roll-off compactor service. Specifically, because their roll-off container was very difficult to empty, a special charge called a spin charge was implemented October 1991.

In another instance, roll-off container service provided to the City's Corporation Yard continued to be billed after service had been discontinued for six months to a year. Several records including the billing records continue to show roll-off service was being provided at the Corporation Yard. It is also a concern that during the two or more years the Corporation Yard was using a roll-off container, this service was not reflected on the driver route log. This log tells the drivers the address and size of container to be emptied. This account was significantly underbilled because the level of service was truncated as discussed above.

It is especially important customers using roll-off containers are billed because these accounts bring in significant revenue.

Recommendation

- A) Customers who have not been billed for roll-off service or have been billed a fee less than established by Resolution should be retroactively billed.
- B) The billing and coding problems identified with the billing system must be corrected so all services are properly billed.
- C) Written policies and procedures should be developed and implemented to assure 1) fees authorized by resolution are billed when they become effective 2) the billing system is always correctly programmed.
- D) Written procedures should be developed and implemented to assure the Finance Department reviews and tests billing information generated by the billing system so only correct billing information is distributed. Testing should be documented and maintained on file.
- E) Public Works Department should assume responsibility for overseeing SWM services are correctly billed.
- F) When customers provide their own roll-off container (instead of renting a city container), the size of the container should be verified, and this verification documented. Public Works should also evaluate whether this policy should be implemented for bins.
- G) A documented reconciliation of actual service and service billed should be made

annually for accounts with roll-off service. These accounts are large revenue producers.

- H) Written procedures for initiating, changing or canceling roll-off service should be developed and implemented to provide reasonable assurance service provided is being billed.

Public Work's Response

"We have looked into this finding and have found that Finance and Information Systems would be in a better position to respond to it.

"We generally agree with the recommendations. As noted elsewhere, we plan to get together with Finance and Information Systems on May 7, 1993 to incorporate these and other of the Audit's recommended actions into our overall plans. Some of the work is already underway.

Finance's Response

No response was provided.

3. Fees Incorrectly Billed By Billing System

Fees incorrectly billed by the billing system for FY 91/92 and FY 92/93 service were \$375,301 less than authorized by Council. This estimate does not include roll-off container fees which were not billed. (See Finding 2)

The automated billing system incorrectly billed the following services:

- a) **Basic Curbside Collection Fee For Bins and Roll-off Containers.** Basic fees billed for FY 91/92 and FY 92/93 bin and roll-off container service were lower than fees authorized through Resolution 55,962 N.S.. This occurred when the fee tables were incorrectly adjusted to remove a multiple pickup surcharge which the billing system was not programmed to bill. Using SANISERV records as of November 13, 1992, bin service was underbilled \$82,914 for FY 91/92 and \$154,032 for FY 92/93. The loss does not include \$71,118 inadvertently identified by Public Works Administration as FY 91/92 Multiple Pickup Surcharge (Project 92.052 to implement special charges) and billed.
- b) **Multiple Carts Under 64 Gal.** Improper application of this surcharge resulted in \$138,355 not being billed for FY 91/92 and FY 92/93 service. Resolution 55,962N.S.(effective Oct. 1, 1991) states that there shall be a surcharge for single accounts, where multiple small carts are used instead of a single 64 or 96 gallon cart. A 10% surcharge is to be applied for service from July 1990 - October 1991

(only to multiple 32 gal. carts) and a 25% surcharge thereafter. The billing system incorrectly applied the surcharge as follows:

- (i) The surcharge was erroneously applied to accounts with cans during FY 90/91 - FY 92/93. Resolutions require this surcharge only be applied to carts. The SWM Analyst who prepares the fee resolutions concurred this was an error. This has resulted in customers being overbilled.
 - (ii) The surcharge is correctly applied to each cart but incorrectly to only the cost for one pickup. For example, if a cart is picked up six times a week, the surcharge is being applied to the fee to pick up the cart once per week.
 - (iii) For service after October 1, 1991, the billing system continued to apply a 10% surcharge instead of a 25% surcharge.
- c) **Bins Emptied Over Nine Times Per Week** When bins are emptied more than 9 times per week, the number of pickups is truncated. Because the system limits the number of weekly pickups to one digit, service is underbilled by the billing system. Although only one instance was observed, and it was for a brief period, safeguards should be implemented to prevent a future loss of revenue.

Billing errors occurred because the automated billing system is incorrectly programmed to calculate fees and is programmed with the wrong fee tables. Public Works and Finance - License and Collections do not assure billing is in compliance with fee resolutions.

Berkeley Municipal Code 2.44.040 assigns the Finance Department the responsibility for billing. The License and Collections Manager is responsible for directing and coordinating the preparation, maintenance and verification of special assessment fees collected by the County which is the method used to bill most customers.

Ultimately, it is the responsibility of the Public Works Department to monitor billings to assure SWM receives all monies authorized by Resolutions.

Recommendation

See recommendation for Audit Finding 2 (Recommendations A-E)

Public Work's Response

Regarding the audit finding, Public Works only addresses #2, Multiple Small Carts Under 64 gallons. Public Works disagrees with the finding. They state they have received responses to January 29, 1993 letters they sent to customers which suggests 70% of these customers will change their service to avoid the surcharge. Since Public Works plans to only bill customers

retroactively if they do not change their service, and it is expected 70% will, only a loss of \$31,355 is expected.

"We generally agree with the Recommendations. We plan to get together with Finance and Information Systems on May 7, 1993 to incorporate these and other of the Audit's recommended actions into our overall plans. Some of the work is already underway."

Finance's Response

No response was provided.

Auditor's Response

Public Works does not understand that the automated system has been billing the Multiple Small Container surcharge for the past two years, but doing so incorrectly. The \$138,355 represents the portion of the surcharge customers were not billed the last two years.

4. Commercial / Multiple Unit Dwelling Surcharge Not Billed

A 30% surcharge to be applied to commercial businesses and multiple unit dwellings has not been implemented. This surcharge was to be applied to commercial businesses and multiple unit dwellings which did not participate in the curbside collection program. The City Council directed this surcharge to be implemented October 1, 1991. Revenues of \$141,889 for nine months service during FY 91/92 and \$189,185 for service in FY 92/93 were lost because this special charge was not authorized by Resolution and billed as directed by Council.

Berkeley Municipal Code 12.34.030 requires **all occupants**, except those exempt because of a physical or mental disability, to place the curbside cart at the curb or in a clearly accessible location not more than ten feet away from the curb. Commercial businesses and multiple dwellings with over 4 units have not been required to comply with this BMC requirement. The Refuse Superintendent stated it was not being enforced because businesses found it difficult to implement. Businesses also found it inconvenient to bring carts to and from the curb. Both the city and businesses objected to carts being left in the front of businesses.

The City Manager and Asst. City Manager of Public Works made this non-compliance known to City Council on June 18, 1991 and requested Council approve the 30% surcharge to provide non-curbside service to businesses. The special charge was to recover the additional cost to the city for providing these businesses a type of backyard service. The Council directed the City Manager to oversee a Resolution to apply this surcharge on service beginning October 1, 1991. This was never done. Over a year later, businesses and multiple unit dwellings are still not required to

comply with the curbside program or to pay the special charge to be exempt from the program.

Because this service was never billed, other property owners are subsidizing this special service.

There is additional concern because long delays in implementing fees, yet providing the service, has happened at least once before. At Public Work's request, City Council also approved a fee for Debris Carts to become effective October 1, 1991. However, Public Works did not draft a Resolution until almost a year later. A fee for debris carts was not authorized until June 1, 1992 through Resolution 56,465 N.S., eight months after council's deadline. A debris cart fee is still not being billed.

Recommendation

- A) The commercial business and multiple dwelling unit surcharge should be implemented as soon as possible to generate revenue, implement a fair fee structure, and comply with the Council directive.
- B) A manager in Public Works should be assigned responsibility for overseeing that SWM fees proposed and approved by Council are quickly implemented. This responsibility should be documented in writing.
- C) Written procedures should be developed which require that Council be informed when approved fees are not implemented when directed.

Public Work's Response

"The identification of \$141,889 for 91/92 and \$189,185 for 92/93 as "lost revenues" from the planned 30% surcharge for backyard cans is inaccurate. In fact, based on our experience as described below, it is quite likely that little or no revenue would have been received from a 30% surcharge because of apparent broad conversion to curbside carts."

"Letters were sent out January 29, 1993 to approximately 250 effected customers informing them that the current ordinance requires them to convert to curbside carts."

"We now plan to send legal language to Council this June, 1993 which would allow exceptions to permit commercial and apartment dwelling to use backyard cans, which would be a 30% surcharge. However, it appears at this time that virtually all customers are complying with the conversion to curbside carts. We will inform Council of this and raise the issue, along with analysis, as to whether they still want to allow the exception and implement the 30% surcharge."

"Regardless of the number of customers ending multiple 32-gallon service, no operational cost savings would have been achieved during 91/92 and 92/93. As described in the preceding Response to Finding 3, this is because a re-routing is required for thousands of accounts to make cost-savings efficiencies and reduce route-days."

Auditor's Response

Council directed Public Works to charge Commercial/Multiple Unit Dwellings a 30% surcharge for backyard type service effective October 1, 1991. Public Works provided this service during FY 91/92 and FY 92/93, yet never billed customers for the service. Regardless if customers discontinue this service in the future, this service has been provided for two fiscal years at a cost to the City. If this service already provided is not billed, the City will not receive an estimated \$331,074 in revenues for service provided over the last two years.

Additionally, documentation prepared by Public Works states that the purpose of the Commercial/Multiple Unit Dwelling surcharge is to reimburse the City for the cost of providing these customers a type of backyard service. Although not included in the audit scope, it appears reasonable there is a cost to the City for providing backyard service vs curbside service. Therefore, a large reduction in customers receiving backyard type service should result in productivity savings.

5. Fee Resolution Should Be Revised

Resolution 55,962 N.S. which establishes fees and surcharges, is unnecessarily complex and difficult to administer, and fees charged for a bin with a compactor are not equitable.

This resolution establishes most current fees for refuse collection. The purpose of the resolution is to a) fund refuse collection and recycling services b) encourage recycling and participation in curbside collection c) charge customers for additional services.

Summarized below are our findings concerning Resolution 55,962 N.S..

- a) It is unclear how surcharges are to be calculated.
- b) Fees charged for a bin with a compactor are not equitable.
- c) Fee structure appears unnecessarily complex. It contains a large number of fees which are record and labor intensive to implement and maintain.

Each is presented in more detail below:

a) Resolution 55,962 N.S. is unclear as to how percentage surcharges are to be calculated. The following conditions were identified:

- (i) Basic service fees are frequently not identified in the resolution so surcharges can be properly applied. Fees for basic cart/can, bin and roll-off collection service include a 5% - 20% Multiple Weekly Collection Surcharge for three to six pickups per week. Surcharges expressed as a percentage of service should only be applied to the basic fee for refuse collection. As discussed in Finding 1, City staff have incorrectly applied surcharges expressed as a percentage to other surcharges and container rental fees as well as basic service fees. This results in 1) customers being overcharged 2) inconsistent fees charged.
- (ii) Resolution 55,962 N.S. does not provide sufficient information for readers to know how the **Multiple Weekly Collection** surcharge is to be calculated. It states, "For single accounts, where multiple carts are used instead of a single 64 or 96 gallon cart, there shall be a 25% surcharge. The term "single accounts" is not defined. The SWM Analyst who prepared this resolution stated this meant the surcharge was to be applied to all service received at each parcel number. It is currently being billed by account number. As a result, it appears customers are being underbilled for service.

b) The fees to be applied to customers using a bin with a compactor are not equitable. Resolution 55,962 N.S. requires compaction filled containers owned by customers to be charged triple the rate for non-compacted service. This triple rate is not being applied if a customer with a compactor is renting the bin from the City. This is not equitable and is resulting in lost revenue to the City. For FY 92/93 service, at least two customers fell into this situation. They were billed a total of \$16,666. If their rate had been properly tripled, they would have been billed approximately \$49,997. This equates to an estimated \$33,331 loss in revenue to the City.

c) The current fee structure authorized by Resolution 55,962 N.S. appears to be unnecessarily complex as well as record and labor intensive to maintain. This is primarily the result of i) billing for cart/can service based on service location which requires three different fee tables, each containing twenty five rates (ii) applying numerous special charges, many generating a relatively small amount of revenue and requiring field visits, additional record keeping and complication of the billing system programming.

In several instances, it appears special charges may not be cost effective to implement, and provide little incentive for property owners to implement service desired by the City. Additionally, the current fee schedule is difficult to explain to customers.

Examples are shown below:

The fee tables to charge for cart/can collection service appears unnecessarily complex. There are three fee tables used to bill cart/can service depending on service address referred to as districts. For a 45 gallon container, the monthly fee for districts 1 - 3 is \$15.80, \$16.10 and \$17.20 respectively. The difference in fees for district 1 and 2 is only \$.30 per month or \$3.60 annually. Maintaining three fee tables, each containing 25 rates, and tracking the district each customers is located, is fairly involved for the small amount of revenues received.

Several special charges are record and labor intensive, or complicate billing programming significantly in relation to the revenues produced. Below are several examples:

- A Multiple Weekly Collection surcharge of 5% - 20% is applied for 3-6 collections respectively per week to encourage fewer collections. Frequently, only a minimal 5% - 10% surcharge is applied. As a result, revenues generated are minimal and could easily be made up by a small overall fee increase. Additionally, such a small surcharge probably does not encourage property owners to reduce their frequency of collection service as intended.
- The spin charge requires a monthly charge (\$25/mo x # of pickups per wk) for special handling of a roll-off container. This was implemented to bill only one account. A small special fee for one account is not cost effective.
- Applying some fees requires a site visit to the customer location. When special handling of bins is required, a 10% - 20% surcharge is applied. For cans located in a basement or up a flight of stairs, an additional \$1.40 per month per can times the number of weekly collections is billed. A similar charge is applied for backyard service in excess of 100 feet from the curb. Excluding the 20% surcharge for special bin handling, it does not appear the time and effort to conduct the field visits, maintain records and programming the billing system are worth the revenues generated. A small overall increase in fees could easily make up for revenues lost if these special charges were eliminated.

Recommendation

- A) Resolution 55,962 N.S. should be re-written to clarify instructions for calculating special charges. Tables with fees for basic service should exclude all special charges.
- B) Resolution 55,962 N.S. should be amended so customers who rent a City bin and use a compactor are charged triple the fee for basic service. This is the same fee that would be charged if the bin was provided by the customer.

- C) A study of the current fees should be performed to determine if they can be simplified and still meet their intended purpose. We further recommend that as a rule, special charges 1) only be applied for unusual or excessive service 2) only be applied when they will produce significant revenue and are easy to implement and monitor. Consideration should be given to a) using only one fee schedule instead of three to bill for cart/can service b) reducing the number of special charges, and charges applying less than a 10% fee. Basic service fees could be adjusted to make up for any reduction in revenues from the elimination of these special charges.

Public Work's Response

"We basically agree that the fees and surcharges are very complex and difficult and, we add, costly to administer.

"We generally agree with the recommendations. As noted elsewhere in the response, some of this efforts are already underway and some would require budget decisions about allocation of staff resources."

Finance's Response

No response was provided.

6. Inaccurate Estimate of Special Fee Revenues

Public Works provided estimates of expected revenues from Special Fees to Council and City Management of \$87,756. However, we estimated the revenues from this source at \$599,326, a difference of 700%. Public Works did not disclose to Council and Management their original estimate was judgmental. Further, they did not revise their estimate when they knew potential revenues were significantly understated.

Using the SANISERV data base and fees from resolution 55,962 N.S., we estimated new or increased special charges would have increased revenues \$599,326, well over the \$87,756 estimated by Public Works.

Concerns about the estimate and its use are summarized below:

- a) A June 18, 1991 Council Action Item from the City Manager (Prepared by Public Works) to Council estimated increased revenues from Special Fees at \$87,756 if resolution 55,962 N.S. was approved. The action item did not disclose this was a judgmental estimate not supported by analysis.

b) This estimate was used again in July 1991 when Project 92.052 was established in the City Manager's Project System. The purpose of the project was to implement the new Special Charges. As of December 1992, Project Reports had not provided a revised estimate even though more than \$310,000, representing only some of the special charges, had been billed during August 1992. There is also correspondence within Public Works documenting that it was known that the estimate was significantly understated prior to August.

Public Works did not disclose to Council and Management their original estimate was judgmental and did not revise their estimate when they knew potential revenues were significantly understated. As a result, Council and Management has not received adequate disclosure regarding potential revenues from new special fees. Many of the special fees have not been billed (See 1). It is imperative management have accurate information to make resource allocations to project 92.052..

Recommendation:

- A) The most current information should be provided to management. In instances where only judgmental estimates are available, these estimates should be replaced with more accurate information as soon as it is available. This is necessary if management is to efficiently allocate resources.
- B) Project 92.052 should be immediately updated with a current estimate of revenues expected from billing special fees.

Public Work's Response

Public Works states the finding is incorrect. The general basis for this statement is that it was disclosed in the budget process.

"We agree with these recommendations in principle and our actions described in the preceding response show that we have been following these principles."

Auditor's Response

Management considered the problem to be significant enough to establish a project in the City's Project Management System. The project manager did not amend these estimates when reporting every six weeks on the status of the project.

7. De-commissioned Billing System

The refuse billing system was taken out of service without a new system to assume its function. The Information Systems Manager stated in a May 1992 memo he planned to have a new billing system in operation by the end of 1992. In September 1992, the Burroughs B1900 computer used to maintain customer billing records, calculate fees, and produce financial reports for refuse collection billing, was decommissioned. Currently, a replacement system is planned to be operational by June 1993, nine months after the old system was taken out of service. According to the License and Collections Manager and Applications Programmer in Information Systems, even this date may not be met.

Development of the new billing system will require detailed planning and coordination between Finance, Public Works and Information Systems. The License and Collections Manager and Applications Programmer both stated that future bills would be produced using the City's Miscellaneous Receivables (MR) module of the GMBA Financial System. The Applications Programmer stated he was to write a program to maintain and calculate billing information which can not be done by MR.

From the time the billing system was decommissioned in Sept. 1992 through Dec. 8, 1992, the date audit fieldwork in this area concluded, no significant steps have been made toward planning or implementation of a functional billing system.

Concerns include:

- Customer billing records have not been maintained since September 1992.
- A system is not available to a) prepare billing information due to the County by August 1993 b) prepare City bills, and c) properly assess penalties.
- No significant progress has been made to implement a billing system.

The prior billing system problems and management problems discussed in this report, together with delays in implementing a billing system, could result in customer records becoming too inaccurate to generate billings. This could cause the City to lose a great deal of revenue and incur a great deal of expense to establish a new customer billing file.

Since the decommissioned system also maintained the data base and billing system for sewer fees, sewer accounts also can not be maintained and fees billed.

Recommendation

- A) In the future, a billing system should not be disconnected until a replacement system has been set up, tested, and found to operate satisfactorily. This is generally done by running the old parallel to the new system for a period of time.
- B) It should be a priority for qualified personnel to design and implement a new refuse collection billing system. Because of the complexity of the project and deadline for implementation, special attention should be given to ensuring the project is adequately staffed.
- C) The Project Management System should be used to plan and coordinate efforts between Finance, Information Systems and Public Works to quickly implement a billing system.

Information System's Response

The Information Systems Manager generally does not concur with the audit finding. Key points made are:

- 1) *"In September 1992, we did not use the B1900 computer, but instead successfully billed using the Miscellaneous Receivable (MR) on the IBM AS/400.*
- 2) *"Customer service information, which of course under-pins the bill calculations, has always been maintained on a PC database by the Public Works Refuse Division. The system is still in operation." Plans are to use the Public Works customer service records to calculate service fees for billing.*

Auditor's Response

Information Systems' response is misleading. The implication is that the billings were calculated using MR. What actually occurred was the September 1992 billing was generated by the B1900 before it was decommissioned. This data was then downloaded into MR which was used to print the bills for accounts billed by the City. In summary, the Auditor's Office has been unable to substantiate the City has any system in place to generate refuse collection billing information.

Until the audit response was received by Information Systems, it was our understanding customer billing information from the old B1900 was going to be maintained on a personnel computer in License and Collections. During April 1993 we again confirmed with the License and Collections Manager that customer billing information from the old system was not being maintained. It now appears that the City plans to use customer service records maintained by Public Works (SANISERV) to generate next billing information due to the County by August 1993. This is even more of a concern for the following reasons:

- The audit found service information in SANISERV and the billing system were different 45% of the time for the 20 accounts reviewed.
- The data base was maintained with inadequate internal controls
- SANISERV is used to track customer service, and was not designed or maintained for billing purposes. SANISERV does not contain information necessary for billing such as service history or an accounts receivable balance, parcel number, or billing address. Therefore, to be used for billing, extensive work is required.

8. Delinquent Accounts\ Lack of Collection Effort

Of \$1,535,271 billed by the City in FY 91/92, \$835,315 or 54% was outstanding on June 8, 1992, two months after the April 11 due date. Although the billing system could not produce an aging of accounts, the audit found \$655,473 of the \$1,535,271 billed was a unpaid balance carried forward from the prior year. This strongly suggests a large portion of the \$835,315 outstanding balance is not just two months past due, but more than a year past due. Although these numbers indicate a severe delinquency problem, **no collection efforts have been made during the last three fiscal years.** Also, there are a significant number of accounts closed over the last nine years which continue to have a credit balance.

License and Collections is responsible for collecting overdue payments for City billed accounts. About 650 - 800 accounts are billed annually. Two methods of collection are authorized in the Berkeley Municipal Code.

Municipal Code 12.32.160(A) states "service on unpaid accounts may be discontinued thirty days after mailing notice of delinquency". The License and Collections Manager stated he was instructed by the Health Department and a prior Director of Finance not to enforce BMC 12.32.160(A) due to health issues. He further stated directives not to enforce this collection procedure were not documented.

Municipal Code 1.20 authorizes the License and Collections Manager and their collection staff to issue property owners citations to appear in court. Since July 1, 1990, this method of collection has not been used.

The License and Collections Manager stated there are no written collection policies and procedures for Refuse accounts receivables.

The effect of so many uncollectible accounts is that service is provided to customers who are not paying for it, paying customers are subsidizing it, and through inaction the City is allowing noncompliance to continue.

Additionally, an April 1991 report (most current observed) shows a large number of closed accounts, as far back as 1983, with a credit balance totaling \$84,061. These accounts are also in the June 20, 1992 Accounts Receivable report, indicating a final accounting for these monies had not been done. BMC 12.32.160(C) states, "No refunds will be made for decrease of service during the year." It is unclear whether this applies to closed accounts.

Recommendation:

Finance should:

- A) Initiate collection efforts authorized in the Berkeley Municipal Code for all delinquent accounts. If collection efforts authorized in the BMC can not be implemented, Finance must have new collection procedures authorized so delinquent account balances are kept to a minimum.
- B) Prepare written policies and procedures addressing how collections authorized in the BMC are to be implemented.
- C) Remove credit balances for closed accounts in the Accounts Receivable report.

Finance's Response

"Finance does not concur with this finding. The Auditor's statement "no collection efforts have been made during the last three fiscal years" is false. The City has continued to collect on delinquent accounts and has drastically increased the number of commercial accounts transferred to the County's tax rolls for collections. In addition, the City is in accordance with the City's Municipal Code, regarding refunding of credit balances."

Auditor's Response

Finance states that since the account receivable balance was \$835,315 on June 8, 1992 and decreased to \$720,500 on June 30, 1992, this represents a collection of \$114,815. What the Acting Finance Director is referring to as collection efforts are late payments received from customers. Aside from city billed accounts being billed a penalty fee once a year (should be twice a year, see finding 9) there is no evidence the Finance Department has taken any other action to pursue delinquent accounts.

Finance also stated that approximately \$118,000 of the delinquent accounts receivable balance is due from commercial accounts. They state they plan to transfer these account balances to the Alameda County tax roll next fiscal year which has a 97% collection rate. This is misleading. For the past several years it has been the policy of Finance to transfer all refuse accounts to the Alameda County tax roll for billing and collections whenever possible.

Finance's response states refuse collection service was never discontinued as a collection method at the request of the Health Department. However, they do not state why citations were never issued to property owners to appear in court as a collection method authorized by BMC 1.20 or why other methods of collection were never developed.

Finance's response does not address why numerous inactive accounts which have had credit balances for several years are still part of the accounts receivable. If these monies can be retained by the City as stated in Finance's response, then these credits should be removed from accounts receivable and properly accounted for as revenue.

9. Penalty Fees Incorrectly Applied / Waived

For accounts billed by the City, penalty fees are not assessed on the dates required, and are incorrectly applied. As a result, it is estimated the City lost \$144,000 in penalty fees the last two years. Additionally, there is no requirement for property owners to pay interest on past due account balances. There are also no written policies concerning the waiving of penalty fees.

Ordinance 5968 N.S. states, "Fees for garbage and rubbish collection shall be paid semi-annually in advance, and shall be deemed delinquent on December 11th and April 11th. There shall be imposed a penalty fee of 10% assessed on December 11th and April 11th."

The following problems were identified concerning penalty assessment during FY 90/91 and FY 91/92.

a) Penalty fees were assessed only once instead of twice (4/17/91 and 3/16/92) each fiscal year. Since half the current year fees are due on December 11 and the remainder on April 11, fees delinquent on these dates should be assessed a penalty.

b) Penalty fees are generally incorrectly applied to only the "previous year" account balance. The previous year account balance is comprised of a) the outstanding annual billing from the prior fiscal years and b) adjustments made in the current year or a prior year. As a result, the following occurs:

i) Penalty fees are generally not applied to fees which are billed and become delinquent in the current year.

ii) Current year adjustments are sometimes assessed a penalty before a customer has had sufficient opportunity to receive and pay the manual billing.

The conditions listed result in the City not receiving penalty revenues it is authorized by Ordinance 5968 N.S.. Also, penalty fees are not serving their intended purpose to deter late payment of fees.

Problems with assessing penalty fees were identified by a) testing account activity during July 90 - August 92 and b) reviewing the Late Fee Report for FY 90/91. The Late Fee Report for FY 91/92 could not be located by the L&C Manager. The FY 90/91 Late Fee Report identified late fee assessments totaling \$46,919. The audit calculated late fees of \$119,251 should have been assessed. The difference results in a revenue loss of \$72,332. The audit estimate was developed by applying the 10% penalty fee to account balances in the 1/11/91 A/R report (Accounts billed by the City) and Late Fee Report dated 4/25/91. Losses for FY 90/91 were multiplied by two to reflect the lost revenue for FY 90/91 and 91/92. The Accounts Receivable Report balance was much higher in FY 91/92 and would probably result in a greater loss of late fee revenue.

We noted a limited number of instances where staff waived penalty fees. There is no authorization or written policy or procedure to allow waivers. The adjustment forms we reviewed waiving penalty fees did not have approval of a supervisor. Without limiting who can waive penalty fees and when they can be waived, employees must use their own judgement when penalty fees should be waived. This could result in 1) penalty fees inconsistently waived 2) lost revenue and 3) accounts credited improperly without detection. The License and Collections Manager concurred with the auditor a written policy addressing the waiving of penalty fees was needed.

The Berkeley Municipal Code provides for assessing penalties but not interest to delinquent account balances. Penalties are designed to penalize a property owner if payment of fees are not timely. Interest is to compensate for the time value of money. Interest charges could provide the city with another source of revenue.

Recommendation:

- A) The Finance Department should develop written procedures which insure penalty fees are properly applied twice a year on the dates authorized by Ordinance 5968 N.S..
- B) Ordinance 5968 N.S. should be modified to address when penalties should be applied to manual billings which have not been paid.
- C) The billing program must be correctly programmed to assess penalty fees in compliance with Ordinance 5968 N.S.. The Public Works and/or Finance Departments should develop written procedures to monitor penalty fees.
- D) Written policies and procedures should address 1) who can waive penalty fees 2) how a fee is to be waived. The document to waive a penalty should be signed by the authorized preparer and reviewing supervisor, state the reason for waiving the penalty, and support documentation should be attached.

- E) A complete late fee report should be kept in the office for three years in a designated area with other Refuse Collection Billing Reports.
- F) In addition, the possibility of applying interest to delinquent account balances should be explored.

Finance's Response

"Finance finds exception with the audit finding on waiver of penalty fees, but concurs with the audit finding regarding penalty assessments. Late fees are not waived by the Finance Department."

"The Finance Department will develop written policies and procedures addressing penalty assessments to insure compliance with the Municipal Code; criteria for waiving late fees, and designating authority to Senior staff to waive fees."

Auditor's Response

The audit documented a limited number of instances where penalty fees were waived. Finance's response states they will develop written policies and procedures "addressing criteria for waiving late fees, and designating authority to Senior staff to waive fees."

10. Work Order Processing Problems

Work Order processing is inefficient, lacks adequate internal controls, and produces inaccurate billing and/or service records. The lack of internal controls includes a lack of segregation of duties in Public Works and Finance for preparing and processing Work Orders. Work Orders are the source document used to maintain service or/and fee information for each account in the billing file (SSC file) Service file (SANISERV.DBF file) and Route Log file.

For twenty accounts reviewed, the level of service billed in the FY 92/93 billing report differed 45% of the time with Public Work's service records (SANISERV and Driver Route Logs). Differences in billing records and service records for only one of the nine accounts was explained by a Work Order. Discrepancies in service and billing records can occur because Work Orders are not prepared, are not received or processed by staff, or are improperly input into billing and service files. There are no established practices or written procedures to ensure Work Orders are properly prepared and processed.

These conditions are illustrated below:

- a) Public Works Administration often provided the Transfer Station a list, and not a Work Order, to effect a change in service in the field. There are no internal

controls to assure a Work Order is prepared and provided to License and Collections so billing records can be adjusted after the change in service has occurred. As a result, changes in service may not be properly billed and go undetected.

b) License and Collections staff prepare Work Orders (residential accounts only), deal with property owners, and adjust account balances. There is no internal control to assure a Work Order prepared and processed by License and Collections is provided to Public Works for processing. As a result, changes to property owner billing records can be made without a change in refuse service and service records. This would result in services received not being properly billed.

c) Public Works Administrative staff located at City Hall and the Transfer Station and License and Collections staff can prepare Work Orders. Work Orders pass through a large number of hands in several units/departments with frequent delays. There is no effective system for tracking Work Order status and missing Work Orders can not be readily identified. As a result, Work Orders which are not fully processed can go undetected. It is also inefficient to have several units preparing Work Orders.

d) Neither the Public Works Department or Finance Department have ever reconciled or compared on a sample basis actual collection service provided with the service level in the billing records. As a result, errors are not identified and corrected.

e) Work Order information is input into three separate data bases, SANISERV (service file), SSC file (billing file), and driver route log (route file). This increases the chance of input errors and is not an efficient use of time.

f) Work Orders are being processed by License and Collections without the Refuse Driver's confirmation. Procedure is for drivers to initial Work Orders to verify they have implemented the change on the Work Order. As a result, a change in billing records can be made without a change in service.

g) Work Orders are not initialed by the preparer. There is no policy to do so. Staff making changes to an account can not be readily identified for follow-up by management or Work Order users.

h) There is no evidence License and Collections check that Work Order information is correctly input in the billing system. This is very important because changes in service level directly effect the amount the billing system will automatically bill a property owner each year.

i) Work Orders do not provide space for information which is often written in using available space on the form. Examples are a) callers name and number b) parcel number c) refuse billing codes and d) more than one route number. As a result, necessary information not requested on the Work Order may be omitted by the

preparer or overlooked by users of the form.

The conditions identified above are due at least in part to a lack of written policies and procedures and clearly assigned responsibilities for processing Work Orders. It appears that a large number of property owners are being incorrectly billed.

Recommendation

Public Works must direct and oversee implementation of a system for ensuring all Work Orders are properly processed. This will require coordination with the Finance Department and Information Systems.

The current process for initiating and processing Work Orders should be modified to provide for the following:

- A) System for ensuring Work Orders are prepared for all record changes and properly and timely processed. Consideration should be given to the using pre-numbered forms to account for all Work Orders or replacing the present Work Order form with an on-line system.
- B) Segregation of duties.
- C) Work Orders prepared at one location.
- D) Periodic reconciliation of billing, service and route information with actual service provided by an independent party. The reconciliation should be documented and kept on file.
- E) Single data base to maintain billing, service and route information.
- F) Comprehensive written procedures.
- G) Documented lines of responsibility for all staff.
- H) Method to verify Work Orders have been properly input, such as an edit listing.
- I) Work Order Form modified to provide space for a) all necessary information b) initials of the preparer and processing staff each time a step in processing the Work Order is completed.

Public Work's Response

"This appears to be basically accurate."

"We generally agree with the recommendations."

11. Concerns With Account Numbers and Refuse Codes

Code definitions and instructions for establishing account numbers and refuse codes in the billing system are not available, or only partially available to staff. Incorrect use of account codes has resulted in 1) difficulty identifying accounts billed by the city and 2) special fees not being billed under specific conditions.

License and Collections assigns account numbers (12 digit number) and refuse codes. Fees are calculated for each account number. Property owners are billed for refuse service by parcel number. One or more accounts can be assigned to a parcel. Refuse codes identify the level of service for each account in the billing system. Fees authorized by resolution are applied to the level of service identified by the refuse code to prepare billing statements. Account Number and refuse code information in the billing reports are also used by Public Works.

Problems identified with account numbers are as follows:

- a) Account codes used to identify whether an account is to be billed by the City or County have not been properly maintained. According to the L&C Manager, accounts ending with 99 are to be billed by the county. The remaining accounts are to be billed by the City. Account numbers ending with 99 were inadvertently changed, and it is now unclear by looking at an account if it should be billed by the County or by the City. This creates problems billing accounts, applying penalties, and preparing accounts receivable reports. Accounts receivable reports which are to contain only accounts billed by the City incorrectly include accounts billed by the County.
- b) Criteria for establishing more than one account for a parcel number is not documented. We were told by the L&C Manager this was done when one or more businesses or tenants are located on a parcel and property owners request a breakout of fees. Since the billing system calculates fees by account number, this unfairly reduces some fees. For example, a surcharge is required if an account has multiple small containers under 64 gallons. However, if each tenant or business with a container is given an account, the surcharge will not be applied.

A probable reason for the problems with account numbers identified above, at least

in part, is because documentation for establishing an account number is inadequate. There are no written policies and procedures addressing how an account number is established. Information identifying the purpose of each digit in the account number and all possible codes was not complete. Available information used to establish account numbers was not kept in one place.

License and Collections also assigns refuse codes which identify the level of refuse service to be billed each account. These codes tell the billing program what fees are to be billed. Staff are not provided with a schedule of codes or instructions how to use the codes. Staff stated they knew the codes after years of using them. The coding system is involved. For example, Service Code 32S1F1V1X1 represents - a 32 and 45 gallon can, collection one time per week, a flight charge for stairs for both cans, and basic service billed using the district 3 fee schedule. Without an approved schedule of codes and instructions, users and management cannot be certain refuse codes are being used or interpreted properly.

Without documented codes and instructions for establishing account and service information, users can not readily determine if billing information is correct. Having this information available may have prevented the two errors with account numbers identified above.

Recommendation

- A) Comprehensive written policies, procedures and coding information should be provided to staff. Procedures should include a periodic review of staff work by the manager to make sure policies and procedures are being followed.
- B) Report information should not be released unless account and service information is reviewed and found to be correct by the License and Collections Manager.

Information System's Response

"This section describes the problems surrounding the 12 digit account and refuse codes. I have no argument with the contention that the coding system in use with the old system was confusing and prone to error".

Finance's Response

No response was provided.

12. Coordination of Billing Functions

No individual is overseeing and coordinating efforts between Public Works, Finance and Information Systems to assure the billing system is operating efficiently and producing accurate billings. This responsibility has not been assigned. Departments/Division's responsibilities for refuse billing are not defined. Department/Division's efforts appear to focus primarily on completing what they see as their role in the billing process. The Deputy Director of Public Works is responsible for coordinating programs and operations with other City departments. However, he is not specifically responsible for establishing policy and overseeing operation in Public Works and other departments for billing for refuse services.

The examples below illustrate some problems:

- a) Property owners have been incorrectly billed for at least the last two billing years due to A) use of unauthorized fees, B) billing program errors and C) inability to bill most special charges. No significant efforts have been made to correct these problems.
- b) Preparation and processing of Work Orders is not sufficiently managed and coordinated between divisions / departments to insure customers are billed for service received. As shown in 2 and 10, this appears to have resulted in services provided and billed to frequently differ.
- c) No billing system is in place to bill for Refuse service. Plans are to be without an operational billing system for a nine month period. There has been no significant coordination between divisions/departments to quickly, efficiently implement a new automated billing system.

Recommendation

- A) An individual should be given responsibility for the overall operation, coordination and management of the refuse collection billing system. It is recommended an individual from Public Works be appointed since revenues are for services provided by Public Works.
- B) Written procedures for billing should be prepared and distributed which 1) clearly define where responsibilities begin and end 2) assure coordination and follow-up between Public Works, Finance and Information Systems 3) coordinate the implementation of changes in the billing system including new fees etc. 4) assure written policies and procedures are followed. These procedures should cover all billing functions.

- C) Public Works Management must accept responsibility for quickly identifying and correcting problems which effect Solid Waste Management.

Public Work's Response

"This is basically correct, but is presented out-of-context and needs clarification." "The need for assigning one individual the management and coordination responsibilities over revenue and the billing system is certainly clear. However, no such staff person(s) have been budgeted or available, as discussed earlier."

"Allocation of more resources especially for staffing, such as for a Financial-Revenue Manager, would most likely generate enough revenue and savings to more than compensate the cost of the resources."

"We generally agree with the recommendations. As noted elsewhere in this response, some of this efforts are already underway and some would require budget decisions about allocation of staff resources."

13. Untimely and Incorrect Adjustments

Adjustments forms prepared by License and Collections to change an account's outstanding balance were not always timely, accurate, or properly documented.

- a) Adjustments are not prepared timely. It often took five months, and in some instances, more than a year for License and Collections to prepare an adjustment. For two accounts, there were 7 instances where it took 12 - 23 months for License and Collections to prepare adjustments. The effect is information in the billing system is not current and manual billings are not being prepared timely. Written policy established July 1992 requires adjustments to be processed within 15 working days. It also requires a bi-weekly report tracking age of each request and the percentage of work completed on time. These procedures were implemented during the audit field work. Therefore, compliance with these procedures was not evaluated.
- b) Adjustments reviewed were often incorrect and inadequately documented. Three of the five accounts reviewed had one or more adjustments which were incorrect (60%). Several adjustments reviewed resulted in accounts being adjusted incorrectly by thousands, or even tens of thousands of dollars. Although limited testing during the audit can not provide absolute assurance, the frequency and magnitude of errors strongly supports problems identified are not isolated instances.

Results from reviewing two accounts are summarized below:

(i) H's Lordship's Restaurant

A June 1991 adjustment for \$7,685.92 correctly charged the account for an increase in service effective August 1990. A July 1992 adjustment of \$7,685.92 erroneously reversed the June 91 adjustment. There was no documentation to support the basis for the credit adjustment.

(ii) Berkeley High School (2246 Milvia)

▣ Adjustments prepared to bill thirteen special pickups for a 25 yd. compactor were incorrectly billed. In one instance, seven special pickups were included on one adjustment. Six of the seven pickups were incorrectly billed, resulting in \$2,060 in fees not being billed. Errors were caused by incorrectly applying the compactor factor (200% - 300%) or for other reasons which could not be determined.

▣ A Work Order dated 9/18/89 reduced service from two - 6yd bins and one - 4yd bin, both with 5X per week service, to one - 6yd bin with 5x per week service.

License and Collections did not process this work order for over a year and service provided during the period 3/89 - 6/91 was not billed. License and Collections prepared a billing adjustment on 1/30/91 to bill (increase A/R balance) for service during 3/89 - 6/91.

The 1/30/91 billing adjustment was for \$63,576 (would have billed \$82,632 if not for an addition error by L&C) and included fees for a 4yd and 6yd bin with 5 day a week service, service canceled by the Work Order dated 9/18/89, and no longer being received. (Attached as backup to Adjustment by L&C). A fee of \$42,184 should have been charged for service provided during this period.

The 9/18/89 Work Order also was not used to update billing records so FY 91/92 fees could be properly billed. The billing system incorrectly billed for two - 6yd bins and one - 4yd bin, both with 5X per week service. Fees billed totaled \$41,132.40 for this service. A fee of \$18,222 should have been charged. An adjustment to correct fees overbilled was not prepared by License and Collections. A work order to support fees billed for FY 91/92 was not available.

The effect of this condition is that the City is improperly billing for service, supporting documentation for adjustments is not reliable, and account receivable information is not always current or accurate.

Written policies and procedures do not exist to ensure that adjustments are timely and accurately prepared, and properly documented. Adjustment forms and computations are not signed by the preparer and showed no signs of supervisory review.

Recommendation

Develop comprehensive written procedures to complement the July 1992 procedures which require adjustments be signed by the preparer; establish a threshold for requiring written supervisory approval and define documentation required for an adjustment.

Finance's Response

"Finance concurs with the findings. During the period of the audit, refuse billing was maintained on two stand alone systems. One system is maintained by Public Works on a PC database which contains all the customer information. The second system (B1900) was used to produce the annual assessment tape to the County and produce the billing for City billed accounts. This configuration required both Public Works and Finance to enter the same adjustments. The use of two different stand alone systems, that did not communicate with each other, caused data unsynchronization."

"Written policies and procedures will be established once the new system is brought on line to comply with the Auditor's recommendations."

Auditor's Response

Finance's statement that Public Works and Finance were entering adjustment information into two different databases is not correct. The SANISERV file maintained by Public Works is used only to maintain service information and not information regarding fees billed. Adjustment forms are prepared and used by License and Collections to change an account's outstanding account balance. For example, if an account was billed for a 96 gallon cart, and later in the year changed to a 32 gallon cart, this customers account would be credited for the reduced level of service by License and Collections in the billing records. Public Works would identify the accounts new level of service in SANISERV using the Work Order, however, no adjustments or adjustment form would be used or prepared since billing information is not maintained by SANISERV.

14. Concerns With Reports

File copies of reports generated by the billing system are not properly maintained by License and Collections. Additionally, reports which a billing system can typically

provide are not available. Conditions are identified below.

- a) Complete reports are generally not kept. Accounts receivable, payment, adjustment and late fee reports were cut up and distributed to three employees in License and Collections. This results in partial reports without dates, report titles, column headings and grand totals making reports difficult to use. Report dates were generally written on the report by staff, however, when a report was not dated, the report lost much of its value for account analysis. Reports were not always filed in order by date, and in some cases were not available. These conditions make it difficult or impossible to research account and overall billing and collection activity.
- b) Column totals and account totals identified in reports were sometimes truncated (including amounts billed). As a result, information reported is not always correct.
- c) Bills and billing reports do not itemize the basis of each outstanding account balance. Additionally, the billing system does not provide License and Collections with an aging of accounts receivable or edit listing identifying changes resulting from processing work orders. As a result, a great deal of employee time is required to research information which should be generated by the billing system.

The cause of the above conditions is 1) a poorly designed system and 2) an inefficient method of maintaining reports.

Recommendation

- A) Each billing, accounts receivable, payment, adjustment, and late fee report should be maintained in its entirety at one location for a three year period. Reports should be properly maintained in date order.
- B) Truncation problems with reports should be identified by Finance and fixed by Information Systems.
- C) The billing system should 1) report the basis of each outstanding account balance 2) provide an accounts receivable report with aging of accounts 3) provide an edit report identifying changes resulting from input of work orders so input can be verified for accuracy.

Finance's Response

"Finance concurs with the findings."

CONCLUSION

During September 1992, the City went from a poorly designed and operated billing system which had not billed approximately \$2.2 million to a City without a billing system.

The City must provide Alameda County with refuse collection billing information by August 1993 if refuse collection service is to be included on the County property tax bills. As of December 1992 when audit field work concluded, it appeared unlikely a billing system capable of producing accurate billings would be in operation by this date.

The billing operation did not have a manager to oversee and coordinate billing functions performed by Public Works, Finance and Information Systems. Employee responsibilities were often unclear and undocumented. Billing codes were not properly documented. Several fees were not billed, billed late or billed incorrectly. Penalties were not properly assessed. The system was paper intensive but had a poor audit trail. Work was not always done in a timely way.

Without a major effort the City is not going to be able to correct the many problems identified during the audit or implement a functional billing system which can produce accurate billings by the August 1993 deadline.

APPENDIX A

Types of Refuse Containers

The City allows the use of cans, carts, bins, and roll-offs as refuse containers. A compactor can be used with a bin or roll-off container. A brief description of each follows:

- Cans** Old style collection container common for residential use. Customers not participating in the curbside program must provide their own can.
- Cart** Resembles a can with wheels. Replaces a can for customers participating in the curbside collection program. There is no rental charge for a cart. Container from 13 to 96 gallons are available.
- Bins** Metal containers on wheels which hold 1-6 yds of refuse. Refuse trucks pick up and empty bin contents into the back of the garbage truck. Bins are classified as frontloader or rearloader containers, and a different truck is required to empty each type of bin. Bins can be provided by the customer or rented from the city.
- Roll-off** Large metal container which must be rolled onto the back of a truck, emptied at the transfer station, then returned to the customer. Roll-off containers are 6yds or larger and can be provided by the customer or rented from the city.
- Compactor** Equipment which compacts refuse in a bin or roll-off container so the container can hold more refuse. Customers own their own compactors and the city charges an additional service fee when compactors are used.