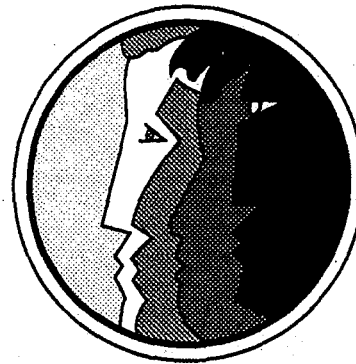


City of Berkeley



*Audit Of
Transfer Station Financial Operations
Solid Waste Management Division*

Phase II

APRIL 1994

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INTRODUCTION

In May 1993 we released our report entitled Solid Waste Management Division Phase I - Refuse Collection Billing Operations. It identified major financial management problems with billing for solid waste picked up by the City's refuse collectors. This report covers Phase II of our audit of the Solid Waste Management Division. It identifies similar financial management problems related to operations at the Solid Waste Transfer Station at Second and Gilman Streets.

SCOPE

The audit examined cash receipt operations at the Transfer Station and billing and collection operations for Transfer Station services. The following operations were reviewed:

- 1) Short Term Roll-off Container Rental
- 2) Private Party dumping at Transfer Station
- 3) Debris Bag/Tag Sales at Transfer Station

The audit primarily covered operations during the period September 1992 through September 1993. Refuse services provided to the City or the public free of charge were not included in the scope of this audit. This area may be reviewed at a later date.

Operations were reviewed through 1) discussion with staff 2) review of written policies, procedures and operating criteria 3) analytical and transaction testing of account activity and reports.

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 (SWM) provides management, administration, and field operations for refuse collection, disposal and recycling. SWM reported revenues of \$11,923,056 for FY 92/93 from all operations including the Transfer Station. The Transfer Station produced revenues of \$1,364,793 from short term roll-off container rental, private party dumping, and sale of debris bags. The scale house is the only facility at the Transfer Station location which receives cash and provides services to the public.

reason, require supervisor written approval, retain all copies in a numeric file and prepare a new ticket.

- H) Staff receiving cash should not prepare the cash reconciliation or Treasury Deposit.

Public Works: The supervisor will periodically review the weighmaster's work. The duplication of tasks has resulted from the removal of the Accountant who formerly performed these tasks. We are now filling the vacant Refuse Supervisor position (which was vacant due to promotion of the Refuse Supervisor to Senior Refuse Supervisor). In this context, and the automation efforts underway, we will address the use of staffing further in the Action Plan to be implemented during FY 1994-95.

This task was formerly performed by an on-site accounting clerk. Since removal of this clerk, weighmasters and supervisors have had to share this responsibility. Not enough resources currently available to segregate all duties (inconsistent with necessary duties of supervisor).

- I) An independent verification L&C is billing for all services should be performed. The scale computer reports could be used for this purpose.

Finance Department: The Finance Department has been advised by Public Works that a feasibility study will be performed to determine if a new scale computer should be purchased that can be integrated with the Miscellaneous Receivable billing module. Pending completion of this study, Public Works and the Finance Department have implemented procedures that require the billing clerk in Public Works to verify the monthly transfer tickets prior to submitting charges to License and Collections for billing. The License and Collections billing clerk is required to remit a billing activity log to the Senior Accountant, documenting the prior month's billing. Additionally, License and Collections provides a copy of the billing register to Public Works for review and verification of the pending charges prior to printing and releasing the billing.

2. Roll-off Container Service

It is not possible to determine whether all roll-off container rentals are recorded, payments received, and payments are for the correct amount. This occurs because:

- A) There is inadequate control over work order forms.
- B) There is no control over roll-off container inventory.

- C) Duties are often not segregated or work reviewed.
- D) Records do not allow payments received at the scale house to be verified as deposited.

These conditions are discussed below:

A) There is inadequate control over work order forms.

- 1) The scale house does not utilize pre-numbered work orders. Work orders are not purchased pre-numbered. They are numbered with a numbering stamp at the scale house. This provides little assurance all work orders are sequentially numbered and every number is unique. As a result errors and irregularities could go undetected.
- 2) There are no controls to ensure all work order forms are accounted for. When forms are received from the printer, they are not inventoried, and access is not restricted. Completed work orders are filed by street address. There is no procedure for insuring that a copy of each issued work order is on file. If all work orders are not accounted for, it is possible for them to be lost or used for unauthorized purposes and this condition not be detected. Of 26 consecutive work order numbers issued during the month of July 1993 that were reviewed, the auditor was unable to locate one.
- 3) Completed work orders are not reviewed to make sure they are properly prepared. The number of extra days of service on the work orders was not always properly documented, and it was unclear if the proper fee was charged. Of 51 work orders reviewed for service billed during the period 3/31/93 - 6/15/93, nine (18%) charged an incorrect fee or service provided was unclear. As a result, the City could be receiving less revenue for services provided than legally required.
- 4) Current procedures provide little assurance the work order provided to the customer is the same as the work order kept on file by the City. The work order forms are a single copy form. The customer is given the original work order, and the City maintains a photo copy. This process provides little assurance the original and copy of the work order are the same. This could allow abuse to go undetected.
- 5) There are no controls in place to ensure all work orders for services received on credit are sent to Finance - License and Collections (L&C) and billed. Currently L&C does not know if they have received all work orders to be billed. As a result, service provided and not billed could go undetected.

B) There is no control over roll-off container inventory.

Inventory of roll-off containers in the field and at the Transfer Station is not maintained. Work orders do not identify the container delivered in the space provided on the form. Roll-off container inventory activity is not reconciled with work order activity. As a result, a) unauthorized use of containers and collection of fees could go undetected b) authorized service not properly documented may not be billed.

C) Duties are often not segregated or work reviewed.

1) The Transfer Station Refuse Supervisor takes customer orders and cancellations, completes work orders, prepares driver schedules for roll-off container delivery and pickup, and receives customer payments. Customer payments are generally given to the Weighmaster who prepares a Treasury Deposit. The Treasury Deposit is prepared without reconciling cash with the work orders. These procedures provide no assurance the Refuse Supervisor is documenting all service and providing the Weighmaster all monies received for deposit. Additionally, current procedures provide no assurance the Weighmaster is depositing all monies received.

2) An AOA II in L&C inputs all billing and adjustment information without independent review of their work. As a result, service provided and not billed could go undetected and incorrect adjustments could go undetected.

D) Records do not allow payments received at the scale house to be verified as deposited.

1) The scale house does not identify the work order numbers associated with each Treasury Deposit even though this information is requested on the form. As a result, it is not possible to trace work orders reflecting payment by cash or check directly to a Treasury Deposit.

Although copies of checks are retained on file with work orders, the Refuse Supervisor concurred that the check payments could not be used to verify payments had been deposited. He explained this occurred because the date on the check was often different than the date the payment is deposited.

2) Delivery records for roll-off containers also could not be used to confirm monies were deposited in Treasury. Receipt of payment by check or cash is documented on the work order and the daily delivery log. Total fees recorded on the daily delivery logs were compared with Treasury Deposits for a two week period in July 1993. The records did not agree 70% of the

time. The Refuse Supervisor stated this occurred because customer fees were often paid and deposited prior to a container being delivered.

The internal control weaknesses identified above exist because an adequate system for renting roll-off containers, billing, and receiving and depositing cash has not been developed. Written procedures are also very incomplete.

Recommendation

A system for renting roll-off container which provides reasonable assurance services provided are billed and monies deposited should be developed. It should include the following:

- A) Pre-numbered work order forms, comprised of an original and several carbons, should be purchased.

Public Works: This has been done. Pre-numbered work order forms have been purchased and are being used. We will implement multi-part forms and retain a numeric file for improved control in the short run. The work order form has been changed to a 3 part form. The original goes to the customer. The Transfer Station keeps two copies on file.

The numeric file of work orders will be reviewed. A computerized work order system has been designed. The system provides tight control over work orders. The supervisor will review completed work orders to make sure they are properly prepared. The numeric copies of the multi-part forms will be audited to assure completion of billing.

- B) Work order forms should be inventoried. Control over unissued and issued work orders should be maintained to ensure all are accounted for. Roll-off containers should not be released from inventory until a work order is complete.

Public Works: Numeric control will meet this requirement. Roll-off container delivery and pickup drivers will stop at the weigh station, present the work order copy and obtain sign-off of delivery and return dates. Inventory of roll-off containers will be maintained. Software is being developed to assist with maintaining and updating the inventory of roll-off stock.

- C) The work order numbers supporting each deposit should be identified on the Treasury Deposit in the space provided on the form. Staff depositing monies and overseeing work order inventory should verify all work orders are accounted for.

Public Works: This has been done. Formerly an account clerk provided the necessary personnel to perform these checks and balances. Without that person, the refuse supervisor and weighmaster must perform all of the above duties.

- D) An inventory of roll-off containers should be maintained, roll-off containers rented documented on the work orders, and inventory and work order activity should be reconcilable.

Public Works: New software will help resolve this problem. See prior note regarding obtaining signed verification of delivery/return at weigh station. The scale house staff will identify the work order numbers associated with each Treasury Deposit. The numeric file of work orders will be reviewed monthly to assure control. Deposits will be batched with work order copies and copies of checks and filed by date. The batching process should identify deposit detail.

- E) Duties should be adequately segregated and work reviewed to provide a reasonable assurance 1) all roll-off service provided is charged (unless exempt), 2) all monies received are deposited in Finance - Treasury.

Public Works: We concur, however, additional staff needed, (i.e., former account clerk).

- F) Written procedures should be developed for charging for service and cash receipts.

Public Works: We concur. Written procedures should be developed.

3. Bags and Tags Program

It is not possible to determine if fees are charged and monies deposited for all debris bags and tags sold at the scale house because: a) the pre-numbered receipt system used is operated improperly in several respects b) the bag and tag inventory is not reconciled with sales. There are no written procedures for the Bags and Tags program. During FY 92/93 \$19,898 in sales was reported from for bags and tags.

Significant concerns are:

- A) Receipts are issued only if requested by a customer. In order for a pre-numbered receipt system to account for all sales activity, a receipt must be

Public Works: Since many bags are provided to customers free of charge, we will yearly conduct a "reasonableness" test to determine if reasonably sufficient revenue is reported. Currently, a senior staff member spends several hours a day to justify usage of the bags. The cost of these products does not justify elaborate and expensive control mechanisms, unless the City chooses to expend additional resources on staffing and such mechanisms.

II. MANAGEMENT AND SYSTEM WEAKNESSES

4. Inadequate Systems, Procedures & Management Oversight

Systems and procedures have not been adequately developed / implemented and no manager or designee in Public Works is providing oversight. As a result, billing and cash receipt operations relating to scale house services are operating poorly. The following examples support this condition:

- A) Internal controls over billing and cash receipts are inadequate. They do not provide reasonable assurance fees are charged for all services, fees charged are correct, or all payments are properly deposited in Treasury. See Finding 1, 2 and 3.
- B) For almost a year, Public Works has done little to correct problems with the scale computer. The problem was identified during December 1992. Efforts through September 1993 consisted of 1) requests to the manufacturer to repair the system 2) obtaining a confirmation from Information Systems the scale computer had a program problem vs hardware problem. Scale computer problems 1) prohibited new accounts from being established and the maintenance of existing accounts 2) produced inaccurate tickets and scale reports. Problems other than those identified may be occurring which have not been detected (See Attachment 4 for details). Staff at the Transfer Station stated during November 1993 the scale computer was still operating improperly. The overall negative effect the scale program problem had on billings and cash receipts is unknown.
- C) Systems are not adequately automated and automated systems are not integrated. As a result, current billing and cash receipt information must be entered by staff more than once. Additionally, implementation of necessary internal controls currently not in place (Finding 1 & 2) may require additional staff time if the current system is not automated. See Attachment 5.
- D) Monies at the scale house are not adequately safeguarded. The following was observed:

- 1) The safe is unlocked during business hours.
- 2) Most scale house staff can open the combination safe.
- 3) The public is allowed to enter the scale house.
- 4) The counting of daily cash receipts can be seen by the public through the windows or open doors.
- 5) The position of the security camera most probably would not identify a thief.

These conditions provide an unnecessarily high visibility and access to cash without the probability of identifying the thief.

- E) The scale house is incorrectly charging credit customers all fees based on weight. Council Resolution 54,350 N.S. dated July 1988 states fees for refuse under 1000 lbs (under 250 lbs if heavy materials) are to be based on yardage. Over 600+ tickets were reviewed for 18 credit accounts covering a nine month period, and 60% were for 770 lbs. or less. These fees should have been based on yardage instead of weight. According to the weighmasters, the City receives a significantly larger fee for the same amount of refuse when fees are based on yardage. This practice provides preferential treatment to credit customers and may result in significant revenue loss.
- F) Since July 1, 1993, the scale house has been billing refuse based on weight for 20 cents less per ton than authorized by resolution. Effective July 1, 1993, resolution 57,043 N.S. authorized a fee of \$57.20 per ton. However, as of October 1993 when field work concluded, a fee of \$57.00 was being charged. Although the \$.20/ton difference may not be considered significant, it is a concern a review process did not catch this error.
- G) Customers have been billed late the last two years. Service during November 1991 through July 1993 was often billed 1) two to three months at a time (five months in one instance) 2) two to three months following the month service was provided. Service for August and September 1993 were billed on time (See Attachment 2 for schedule of billing dates). This is annoying to customers, SWM is not earning interest on these monies, and the risk of not receiving payments is probably significantly increased.
- H) L&C did not identify several problems with the aging of receivables. Billing statements did not age past due receivables over 90 days although the form provided space for receivables past due over 120 days. This problem first occurred on the March 1, 1993 statements. This condition was not identified or corrected until audit staff contacted Finance during August 1993. Additionally, an August 1993 aging report incorrectly aged receivables, showing 72% of the receivables were past due over 120 days.

The L&C Accountant was unaware receivables were being incorrectly aged. HTE was contacted by the Auditor's Office and these problems were corrected. It is a concern that L&C's current procedures may not detect information incorrectly reported by HTE in the future.

- I) The scale house is circumventing current policy which requires L&C approve a credit application prior to a Transfer Station customer dumping on credit. Staff are allowing blank checks left by customers to be used to pay dumping fees for up to a week of service. Staff stated about five checks a week are received. As a result, the City is subject to unnecessary risk that a customer may have a bad credit rating or is operating without a business license. Both increase the risk to the City that revenues may be lost.
- J) Some customers are dumping refuse without paying their entire dumping fee because a deposit is not being collected. When refuse fees are based on weight and a customer does not have a credit account with the Transfer Station, the 1990 Transfer Station Procedure Manual requires a deposit be collected prior to a customer dumping refuse. During the week ending September 11, 1993, documentation in a drawer identified 20 customers that had not paid part of their fee for dumping refuse. Services were provided during the period 2/93 - 8/93. Unpaid fees were generally \$5 - \$30. In one instance, an unpaid balance of \$135 for a \$195 ticket was observed. Auditor reviewed nine days during July 1993 and identified four tickets where full payment had not been received. Unpaid balances ranged from \$4.67 to \$37.89. Written policy requires a deposit to prevent customers from leaving the Transfer Station without paying all charges. Staff stated no collection efforts are made for these accounts. The current policy requiring a deposit should be enforced to prevent abuse.
- K) The AOA II in L&C who processes the billing for the Transfer Station also received some checks. It is unclear how the checks were obtained. Policy is for Treasury to receive all checks. Employees who deal directly with customers and prepare the billing should not also receive payments. This internal control is necessary to provide a reasonable assurance all monies are properly deposited.
- L) Adjustments by L&C to customer account balances generally were unsupported or contained errors and did not have documented review and approval. As a result, error and abuse can go undetected. Examples follow.
 - 1) On 9/8/92, three customer accounts with balances of \$7,505 were written off without required City Council approval, accounting entry, or support that the accounts were uncollectible. This occurred during

the billing system conversion. Although this error was brought to L&C's attention during the audit, it was not corrected as of September 1993.

2) Credits were removed from customer accounts without adequate supporting documentation. On 8/4/93 ten customers had credits totaling \$9,739 removed by L&C. Two accounts with credits totaling \$9404 were reviewed to determine if their removal was supported. L&C could not support the removal of \$2,771 of a \$8,743 credit for one account or the full \$661 credit for the second account. The accounting adjustment was approved by the L&C Manager on a new form implemented during the audit.

3) Five adjustments made during the period 3/93 - 6/93 were reviewed. Four of the five adjustments were made by an incorrect accounting entry or L&C did not provide documentation supporting the adjustment. In one instance, a charge was removed from one account to be charged to another account. The other account was never charged. In another instance, a charge was removed by billing the charge again as a negative amount, an unacceptable accounting entry. None of the five adjustments showed evidence of review and approval. Additionally, L&C was requested on several occasions to provide the supporting documentation for three adjustments made during the period 12/91 to 6/92. None was provided.

- M) Scale tickets incorrectly show a fee is charged City vehicles, including SWM vehicles, when dumping at the Transfer Station. Since City vehicles are not charged for dumping, tickets and scale reports are incorrectly identifying fees as billable which will not be billed.
- N) The City does not have a documented policy for dealing with blocked roll-off containers which can't be picked up or customers who cancel rental of a roll-off container when the roll-off is delivered. According to the Refuse Supervisor, the City is not compensated for these City expenses. As a result, the City is incurring costs it is not being reimbursed for, and for which there is no written policy.
- O) Budgeted and actual revenue are not always properly monitored or accounted for. This is the responsibility of Public Works. During FY 92/93 and YTD FY 93/94, some budgeted revenue accounts reflected little or no revenue, and some revenue accounts without a budget had significant revenues. See Attachment 3 for details. If revenue activity is not monitored, revenues which are higher or lower than projected will not be identified and appropriate measures taken.

Recommendation

Responsibility should be assigned to a specific person for ensuring billing and cash receipt operations are efficient, effective, and are being performed. Duties should include development of systems and procedures with emphasis on automation, the charging of fees and cash handling at the Transfer Station, timely billing, and collection efforts. This individual should also have authority to coordinate activities with Finance.

Public Works:

Item D: The safe will be locked during business hours. It is necessary for the three primary scale house staff to have access to the safe for efficient customer service (e.g., to obtain change and prepare the daily deposit).

The public will no longer be allowed to enter the scale house. A new door and blinds will prevent the public from seeing the counting of daily cash receipts. The position of the security camera will be adjusted to identify potential thieves.

Item E: New software will indicate charges by yardage, where appropriate, for credit customers.

Item F: We will review the standard practices of rounding-off charges to the nearest dollar with the City Manager's Office and the Finance Department.

Item I: The scale house will no longer keep blank checks.

Item J: The scale house will resume collecting deposits.

Item M: New software will identify city vehicles from paying customers.

Item N: We will recommend a policy at the time of the next rate change.

Finance Department:

Item G: Billing procedures have been implemented by License and Collections which provide for scheduled monthly billings. Since the implementation of this schedule billings have been generated monthly. The billing clerk is required to remit a billing activity log to the Senior Accountant, documenting the prior months billings. A copy of this report is

provided to the License and Collections Manager and the Director of Finance for review and approval. Additionally, License and Collections provides a copy of the billing register to Public Works for review and verification of the pending charges prior to printing and releasing the billing.

Item H: Finance Department disagrees with this finding. The Miscellaneous Receivable module was properly tracking the aging of receivable balances in the customer accounts from 30 to 270 days, the problem was that the print command did not provide for the printing of balances beyond 90 days of the statement. HTE modified the printing commands to print this information on the statement. We have implemented operating procedures for Miscellaneous Receivables which call for the Senior Accountant to conduct a test audit of enhancements before converting to the production module. The License and Collections Manager reviews modifications to the operating procedures prior to implementing any changes.

Auditor's Comment: The audit finding is directed to the fact that License and Collections was not aware that the accounts receivable aging report was not accurately reporting the age of outstanding balances. It is rather irrelevant that the module is tracking the number of days accurately if the reports produced to monitor the payment are inaccurate.

Item K: The Treasury Manager has implemented a policy restricting the distribution of checks to License and Collections staff. The Treasury Division is responsible for receiving all checks and providing a photo copy of checks to the responsible billing clerk.

Item L: Effective September 15, 1993, License and Collections implemented a process that will preclude accounts from being written off without City Council approval: we have developed an adjustment form (FN-MRA) to correct charges in Miscellaneous Receivables. The billing clerk can process adjustments into MR only after the adjustment and supporting documentation has been reviewed and approved by the Senior Accountant, Department Director administering the customer type account, and/or the License and Collections Manager.

The Senior Accountant has reinstated the three customer accounts with balances of \$7,505 into Miscellaneous Receivables. These charges will be documented and submitted to the City Council for recommended write off (for bankruptcy and no forwarding address). Upon receipt of the Council Resolution approving the write-offs, License and Collections will remove the uncollectible accounts from the Miscellaneous Receivable billing module.

It was determined that the Miscellaneous Receivable module included credit balances in the aging report. This procedure was implemented because credit balances are not receivables, but are liability accounts. Some of these credit balances resulted from payments received from customers that had charges which were lost in June, 1991, due to a crash in the prior Solomon program. Due to the crash, complete reconstruction could not be accomplished. Some of the balances should have been applied to the lost charges.

Auditor's Comments: Public Works cover memo transmitting their response to the report indicated that they are continuing to evaluate recommendations made in this section of the report and are planning to develop an Action Plan within the next 90 days for implementation during FY 1994-95.

5. Severely Delinquent Account Receivables

Finance - License and Collections is not performing collection efforts or properly maintaining billing address information for the Transfer Station accounts. Additionally, L&C is writing off delinquent accounts without any documentation of collection effort or required Council authorization. Below are several examples supporting the problems with collections and mailing addresses.

A) Accounts Receivable reports indicate delinquency is a severe problem. The schedule below summarizes the percentage of the accounts receivable balance which is current and past due during the first three quarters of 1993.

Billing Date	A/R Balance	Balance Current	Past Due 120-270 Days	Past Due Over 270 Days
3/01/93	\$233,967	28%	29%	0%
6/15/93	\$228,826	34%	44%	0%
9/17/93	\$298,468	47%	22%	20%

On 4/22/93 the auditor met with the L&C Manager, Sr. Field Investigator and their staff who concurred with the March 1993 aging information. Since the condition was brought to their attention, the problem of delinquent accounts has become worse instead of better.

During FY 92/93 the City reported \$333,755 in revenue from sales to credit

customers. As shown in the above schedule, as of 9/17/93, 42% or \$125,644 of the receivables are over 120 days past due. This equates to 38% of the entire revenue reported from sales to credit customers during FY 92/93.

The BMC does not provide for penalties and interest to be applied when payments are late. This could provide significant revenues to the City and reduce the number of delinquent accounts. For example, a 20% penalty applied to all receivables past due over 120 would be \$25,071 ($\$298,468 \text{ A/R balance} \times 42\% \text{ past due over 120 days} \times 20\% \text{ Penalty}$) if applied on 9/17/93.

- B) License and Collections could provide no documentation of any collection efforts during the period January 1992 to April 20, 1993 when audit fieldwork was conducted. The Sr. Field Investigator confirmed no collection efforts had been made during this period. The L&C Manager was also unable to support any collection efforts had been made during this period.
- C) Many credit customers have used the Transfer Station for more than a year, (several over two years) making little or no payment for service (See Attachment 1). Several of these credit customers are currently dumping refuse at the Transfer Station and not paying for service even though these specific accounts were brought to the attention of the L&C Manager, Sr. Field Investigator and L&C staff on April 22, 1993.

The audit identified sixteen accounts which showed use of the Transfer Station from 7 to 30 months and little or no payment for service was made as of 3/15/93. Each of the sixteen accounts had an outstanding balance of more than \$1,000. Eleven of these were currently using the Transfer Station. Written procedures require credit privileges be discontinued when an account becomes delinquent. By 4/28/93 L&C had researched the sixteen accounts and concurred with the finding. Four months after the April 22 meeting, the auditor again reviewed these sixteen accounts. Nine of the sixteen accounts continued to use the Transfer Station on credit. In summary, even though the L&C Manager concurred that 16 specific accounts were extremely delinquent, the first collection step of disallowing use of the Transfer Station was not initiated.

- D) Finance - License and Collections made no effort to collect on a delinquent account which represented 20% of the accounts receivable balance until audit staff brought it to their attention on 7/13/93. Fidelity Roofing had an outstanding receivable balance of \$46,704 on June 15, 1993, representing over 20% of the \$228,826 receivables balance made up of 268 accounts. Additional fees of \$2,676 for May 93 service and \$1,630 for June 93 service had also been incurred but not yet billed, bringing the unpaid balance to \$51,007. As of September 29, 1993, the accounts receivable balance for this

account was still largely outstanding, totaling \$43,986. The letter of demand dated July 16, 1993 was not consistent with the collection procedures which the Sr. Field Investigator had provided to the auditor just two months earlier on April 19, 1993.

- E) Written procedures are inadequate. Procedures are comprised of a half page of written instructions, and three collection letters. Only two of the collection letters could be located by the Sr. Field Investigator. The procedures do not provide enough information to perform the collection steps described. For example, the procedures do not clearly define when an account becomes delinquent, how delinquent accounts are to be identified, or when each collection letter (referenced as A,B,C) is to be sent etc..
- F) Nine months after the first billing statements using HTE Miscellaneous Receivables were produced on 10/20/92, a large number of billing statements continue to be returned as undeliverable by the Post Office. The large number of undeliverable statements appears to be caused by a decision in L&C to use customer address information from the scale computer instead of the decommissioned billing system. The auditor was told this was done because nobody knew how to produce a list of customer billing addresses from the old billing system. During the period 12/92 - 7/93, 22% (73/337) of the Transfer Station accounts had one or more billing statements returned by the Post Office as undeliverable. Of the 73 accounts, 41 were identified by L&C during the period 12/92 - 1/93. Only 15 of these 41 accounts have had their address changed as of 8/3/93 when the fieldwork was completed. As of 8/3/93, 53 of the 73 accounts or 73% had not had a change of address. Many of these customers are continuing to use the Transfer Station and a significant number have not made a payment since the new billing system was implemented. In an effort to correct this condition, on 2/8/93 and possible subsequent dates, L&C provided the Transfer Station with a list of customers they needed current addresses for. It appears this effort was not successful, and no other efforts have been made as of August 1993.
- G) License and Collections is seldom identifying and writing off delinquent accounts as uncollectible. When accounts have been written off as uncollectible, License and Collections could provide no support any collection efforts had been made to support the account was uncollectible.

For the period FY 90/91 - FY92/93, only 2 Transfer Station accounts with receivables totaling \$1,163 were written off as uncollectible. There is no evidence of any collection efforts performed prior to L&C writing off these two accounts. There are no procedures specifying any collection efforts be performed prior to an account balance being written off as uncollectible.

It also appears no effort is made to identify uncollectible accounts. As of October 1993, 15 accounts were identified which had no activity for three or more years and had not been written off as uncollectible.

As a result of the lack of collection efforts, the City may never receive a large part of the current receivable balance. Additionally, even if fees are paid eventually, the City has lost the use of the money and interest on the money.

Allowing receivables to be written off without documented collection efforts may result in collectible accounts being written off. It could also result in errors or abuse going undetected.

Receivable balances for accounts which have not had any activity for several years are probably too old for collection. Allowing them to remain on the books is overstating the receivables balance, and the City's assets.

BMC 2.72.040 assigns the Public Works Department the function of supervision and control of the City refuse disposal program. As a result, it is the responsibility of Public Works to oversee all refuse operations including billing to assure they are correctly performed.

Recommendation

- A) Customers with severely delinquent accounts should be denied use of the Transfer Station.

Public Works: A credit approval/denial policy and procedure will be developed in conjunction with the Finance Department.

Finance Department: The License and Collections Manager has implemented procedures that requires the Senior Field Investigator to review monthly, the aging accounts receivable report and issue a Stop Notice to the Transfer Station Supervisor. Pursuant to this notice charging privileges for accounts that are 60 days delinquent are temporarily suspended until the account is brought to a current status. The Senior Field Investigator meets monthly with the License and Collection Manager and recommends further collection activity to assure collection of debt.

- B) The City Manager's Project Management System should be used to develop and implement a plan to bring the majority of the receivables current within 6 months.

Finance Department: The License and Collections Manager implemented procedures that clarify the responsibility for the collection of City revenues. However, we disagree with the Auditor that there were no collections efforts performed. A Field Investigator was assigned to the transfer station receivables, and collections were pursued. This activity included follow-up correspondence, and telephone collections. Unfortunately, proper documentation of collection efforts was not maintained.

Currently the Senior Field Investigator documents all assignments issued to subordinate staff, and maintains a collection activity log for each collector. Field Investigators prepare reports on their collection activities and maintain formal collection files on all accounts. These reports are reviewed monthly by the License and Collections Manager.

A copy of the accounts receivable aging report, and pending charge listing are issued to the Senior Field Investigator, A bi-weekly collection activity report is prepared by the Senior Field Investigator, and copy is submitted to the License and Collection Manager and Director of Finance, to ensure proper monitoring of collections. The Senior Field Investigator reviews this report with his staff on a bi-weekly basis.

- C) Finance and Public Works should develop and implement collection procedures. These procedures should be in writing and require all collection efforts be documented. Written procedures should describe specific collection efforts be made prior to an account being written off as uncollectible.

Finance Department: Collection procedures were implemented which require the Field Investigators to maintain a formal collection file on all accounts referred to the collection unit. The Senior Field Investigator is required to review collection files, and issue recommended collection action, and forward an account activity listing to Public Works Administration for those accounts which are 60 days delinquent. Privileges are suspended at the Transfer Station until the account status is current.

Quarterly meetings are to be held with Public Works staff to resolve collections issues.

In November 1993, License and Collection initiated billing procedures that call for the billing clerk to issue a monthly report listing all mail returned due to incorrect mailing addresses. A copy of this list is provided to Transfer Station personnel to assist in obtaining a correct mailing address, so that bills can be re-sent.

The License and Collection Manager has implemented written procedures for writing-off bad debts. The procedures provide for an annual review in February of each seriously delinquent account and preparation of a recommended list by the License and Collections Manager. This list is reviewed and approved by the Finance Director, for submission to the City Council for authorization to write off the bad debts.

The Senior Accountant assigned to License and Collections will prepare detail collection procedures that are consistent with the capability of HTE's Miscellaneous Receivable billing module. Procedures will comply with the recommendation contained within the audit report. It is anticipated that this project will be completed by June 30, 1994.

- D) *Public Works should periodically review the receivables reports and contact the L&C Manager if delinquent accounts become a problem. If problems continue, Public Works should make their concerns known to the Director of Finance, and if necessary, the City Manager.*

Public Works: We concur. Public Works will work with Finance to develop a procedure for review of regular aged receivable reports. Public works will interface with Finance to assure reasonable collection efforts are made.

Finance Department: Billing and collections procedures have been implemented which require the Senior Field Investigator to document all assignments issued to subordinate staff, maintain a collection activity log, prepare a monthly collection report, and meet with the License and Collections Manager bi-weekly to resolve collections issues. The Senior Field Investigator is required to monitor collection activity, and meet monthly with License and collections Manager to review accounts that are 60 days delinquent.

The sixteen accounts identified in the audit have been assigned to the Collections unit and collection was pursued. Fidelity Roofing Company had an outstanding balance of \$46,704. Collection activity has brought this account current with no outstanding charges due. As a result of these efforts, five accounts have entered into payment plans to resolved through Small Claims action. The Senior Accountant has been assigned to develop detailed collection procedures that are consistent with the capability of HTE's Miscellaneous Receivable billing module. This project is to be completed prior to September 30, 1994.

In addition \$98,000 of delinquent transfer station charges were collected during the period of July 1, 1993 to March 1, 1994.

- E) Consideration should be given to charging penalties and /or interest for late payments to encourage prompt payment and to compensate for loss of the timely use of monies due.

Finance Department: Public Works and Finance Department will evaluate the Auditor's recommendation and issue a recommendation to the City Manager regarding the imposition of penalties and interest on Transfer Station charge accounts.

In November, 1993, the License and Collections Manager initiated procedures that require the billing clerk assigned to processing the Transfer Station billing to verify the accuracy of the address retained in the billing system with the address appearing on the monthly ticket issued at by the transfer station establishing the charges for dumping. All returned mail is required to be documented on a return mail log. A copy of this log is provided to the Field Investigator and the Transfer Station Supervisor for follow-up. The procedure requires the Field Investigator to review the City's Occupation business license files for any additional information to assist in delivery bills to customer. Customers with outstanding balances are not allowed to dump, this results in the Transfer Station Supervisor receiving correct mailing addresses. This information is forwarded to the billing clerk in License and Collections for corrective action. The License and Collection Manager meets with the billing clerk and Field Investigator prior to releasing the monthly billing to review the return mail log and to assure correction had been processed.

6. Ineffective Use of An Employee's Time

An Accounting Office Assistant II in Public Works Administration is spending a large portion of her time compiling information which is already available, is not being used, or is not an effective use of her time. There are no written policies and procedures for her desk. The following was observed:

- A) A record of daily/monthly dumping fees is maintained for each credit customer by Public Works Administration although this information is readily available through the scale computer or the billing system. There are over 300 accounts. Public Works prepares the records using the scale tickets. Maintenance of these records is very time intensive. At one time, this information was used by Public Works Administration to respond to customer questions regarding their bill, however, these calls are now referred to Finance - License and Collections. Customer billing and payment information has been available to Public Works through on-line inquiry of the billing system since September 1992.

CONCLUSION

This audit identifies inadequate management oversight, a lack of well functioning computerized systems and limited written procedures. Systems and procedures have not been adequately developed resulting in inefficient financial operations both at the Transfer Station and in License and Collections. The weak internal control structure in place currently could allow errors and irregularities to go undetected.

Billing and cash receipt operations for 1) short term roll-off container rental 2) private party dumping of refuse and 3) debris bag and tag sales are operating poorly. Employee responsibilities are often unclear and undocumented. An employee in Public Works Administration is spending a large portion of her time preparing records of roll-off and dumping activity which is largely available through other sources. Billing is often not timely and virtually no collection efforts have been performed even though many accounts are severely delinquent. A manager or designee in Public Works is not overseeing the entire billing and cash receipt operation to ensure it is functioning properly. Deficiencies in the scale computer have not been corrected.

Most of the concerns addressed in this audit were also identified in our May 1993, Solid Waste Management Division Phase I - Audit of the Refuse Collection and Billing Operations.