



# CITY OF TAMPA

Pam Iorio, Mayor

Internal Audit Department

Wayne Boytim, Acting Internal Audit Director

January 3, 2005

Honorable Pam Iorio  
Mayor, City of Tampa  
1 City Hall Plaza  
Tampa, Florida

RE: Utility Accounting Division, Audit 04-15

Dear Mayor Iorio:

Attached is the Internal Audit Department's report on the Utility Accounting Division.

The Utility Accounting Division has already taken positive actions in response to our recommendations. We thank the management and staff of the Division for their cooperation and assistance during this audit.

Sincerely,

Wayne Boytim  
Acting Internal Audit Director

cc: Bonnie Wise, Revenue and Finance Director  
Steve Daignault, Administrator of Public Works and Utility Services  
Mike Bennett, Water Department Director  
Ralph Metcalf, Wastewater Department Director  
David McCary, Solid Waste Department Director  
Butch Hill, Utility Accounting Manager

**REVENUE AND FINANCE DEPARTMENT  
UTILITY ACCOUNTING DIVISION  
AUDIT 04-15  
OCTOBER 21, 2004**

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Auditor

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Audit Supervisor

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Audit Director

**REVENUE AND FINANCE DEPARTMENT  
UTILITY ACCOUNTING DIVISION  
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**INTRODUCTION**

The City of Tampa Utility Accounting Division (UAD) provides billing and collection for water, sewer, and refuse services. UAD is divided into five sections: Customer Service, Billing, Refuse Inspection, Credit, and Meter Reading & Service. The Division is responsible for servicing approximately 123,000 residential and commercial customers. There are 21 billing cycles and meters are read on a bimonthly basis, with the alternate month being billed based on a moving average.

The Multi-Service System (MSS) is utilized to integrate utility service and billing information, provide users with on-line access to current and historical activity and generate operational reports. It is used by all of the sections except Meter Reading & Services, which uses Radix software for meter reading purposes. Radix information is interfaced with MSS daily.

**STATISTICS** (amounts in thousands)

	<b><u>FY02</u></b>	<b><u>FY03</u></b>	<b><u>FY04</u></b>
<b>Utility Sales</b>	\$160,026	\$154,790	\$179,097
<b>Accounts Receivable</b>	13,461	11,957	14,081
<b>Bad Debt Write-offs</b>	1,458	1,392	1,750

Source: Financial Management Information System (FAMIS).

**STATEMENT OF OBJECTIVES**

This audit was conducted in accordance with the Internal Audit Department's FY04 Audit Agenda. The objectives of this audit were to ensure that:

1. User access to critical functions of the Multi-Service System were necessary to perform their job duties;
2. Utility consumers were charged for services provided and that the charges were correct;
3. Procedures with regards to zero consumption readings on active accounts were reasonable and minimized revenue losses;

4. Procedures were effective in minimizing losses due to illegal consumption (i.e., usage on inactive accounts); and
5. Collection efforts on delinquent accounts were adequate to minimize loss revenue.

### **STATEMENT OF SCOPE**

The audit period covered the operations of the Utility Accounting Division (UAD) from October 1, 2003 to May 31, 2004. Source documentation was obtained from UAD. Original records as well as copies were used as evidence and verified through physical examination.

### **STATEMENT OF METHODOLOGY**

Judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the Multi-Service System. A limited review of general and application controls consisting of interviews of applicable personnel and a review of user access capabilities was conducted and found to be adequate. Sufficient tests of the data were also performed. Based on these tests, the data that is maintained in the Multi-Service System database was deemed sufficiently reliable to be used in meeting the audit objectives.

### **STATEMENT OF AUDITING STANDARDS**

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## **AUDIT CONCLUSIONS**

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Some users had access to critical functions of the Multi-Service System that were not necessary to perform their job duties;
2. Utility consumers were charged for services provided and the charges were correct;
3. Procedures with regards to zero consumption readings on active accounts were not always followed;
4. Procedures could be improved in minimizing losses due to illegal consumption (i.e., usage on inactive accounts); and
5. Collection efforts on delinquent accounts were inadequate to minimize loss revenue.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Utility Accounting Division, they do present risks that can be more effectively controlled.

## **COLLECTION OF DELINQUENT ACCOUNTS**

Section 26-30 of the City of Tampa Code states that a utility bill shall be delinquent if not paid within thirty (30) days after the billing date. After notice to the customer, service shall be discontinued and the unpaid bill charged against his deposit. It was represented that service is to be discontinued within 30 days after the date the account becomes delinquent. The Credit Section receives a daily "Delinquent Account Cutoff List" which lists all active accounts overdue for non-payment. The list is reviewed to determine the accounts that will have a collection service order issued to collect or discontinue service. As of the August 25, 2004, cutoff list there were 12,172 accounts with \$2,267,035 in arrears.

Our test of collection efforts for 19 active accounts with delinquent balances totaling \$580,780 disclosed the following:

- No collection efforts were performed on two accounts with delinquent balances totaling \$45,533.
- Government accounts were marked through on the cut-off list; as such, were not reviewed for collection.
- Payments made on one account were not adequate to cover current charges or the delinquent balance due of \$69,396.
- Accounts are not prioritized (e.g., large dollar accounts) within the geographical area when assigned for collection efforts.

Because of the above conditions the City is losing the potential to collect revenue.

## **RECOMMENDATION 1**

All delinquent accounts should be subject to the collection process.

## **AUDITEE RESPONSE**

UAD agrees that collection procedures need improvement. More comprehensive procedures will be developed for governmental accounts, along with the four improvements to written procedures recommended at #18. We feel that all delinquent accounts, except for cut-off exempt accounts, (see Recommendation #11), are currently subject to the collection process. Improvements agreed to at #11 should only improve the collection process. Governmental accounts, while routinely deleted so as not to waste daily cut-off resources are not excluded from the cut-off list.

**COLLECTION OF DELINQUENT ACCOUNTS** (continued)

**RECOMMENDATION 2**

Payment arrangements, as required, should be made with customers with delinquent balances to provide for the payment of both current and delinquent charges.

**AUDITEE RESPONSE**

UAD agrees with this recommendation and feels that improvements to written procedures agreed to at #18 will address this recommendation.

**RECOMMENDATION 3**

Consideration should be given to prioritizing accounts within the geographical area assigned for collection efforts.

**AUDITEE RESPONSE**

We feel that improvement procedures agreed to in #18 will make the prioritization process clearer. We generally attempt to prioritize delinquent accounts within geographical areas, however, we believe current procedures to skip accounts with recent payments, and to give relatively less attention to governmental accounts makes it seem otherwise. Different cycles will necessarily lead to slight differences in the dollar value and the age of delinquent accounts that are selected and called on throughout the month.

## **COLLECTION AGENCY ASSIGNMENT**

Accounts closed by customer request with unpaid final balances are not scheduled for assignment to the collection agency until after the 3rd final bill was mailed. Accounts closed by UAD due to non-payment are assigned until after the 4th final bill was sent. Our test of 20 accounts assigned to the collection agency with delinquent balances totaling \$22,698 disclosed the following:

- Accounts are not reviewed prior to being written off and assigned to the collection agency.
- It took three to six months after accounts were closed until they were assigned to the collection agency. The total time the accounts were actually delinquent before being assigned to collection spanned five to ten months.
- Collection work orders to discontinue service were not issued on a timely basis for six accounts. These customers continued to receive services without payment prior to the account being closed.

The sooner accounts are assigned to the collection agency the better chance of collection. Our survey of two local jurisdictions disclosed that accounts are assigned to the collection agency 60-90 days after the account becomes past due.

## **RECOMMENDATION 4**

Management should review accounts prior to being written off and assigned to the collection agency.

## **AUDITEE RESPONSE**

Review of accounts (for appropriate collection activity, for example), could be done with the additional resources of a full-time clerical position being recommended at #10. The Billing Section is already routinely reviewing accounts prior to their being written off for other existing active accounts, and transferring approximately 75-80 accounts per month to those active accounts which reduces the number sent to the collection agency.

**COLLECTION AGENCY ASSIGNMENT (continued)**

**RECOMMENDATION 5**

The assignment of accounts to the collection agency should be within a reasonable time frame (e.g., 90 days) from the date it first becomes past due.

**AUDITEE RESPONSE**

UAD agrees with this recommendation. Finaled accounts should be placed with the collection agency no more than three months of their being finaled. Finaled accounts must currently be released by manual request of the Billing Supervisor. We recommend that we request the IT Department to program this function to be performed automatically by the MSS system, thereby eliminating this possibility in the future.

**RECOMMENDATION 6**

Service should be discontinued within a reasonable interval after the bill becomes past due.

**AUDITEE RESPONSE**

UAD agrees with this recommendation. However, we only have five full-time collectors currently, and are not able to call on all accounts that are delinquent. Last year, for the entire Fiscal Year 2004, net bad debt was down from previous years to 0.58% of gross utility billings of over \$179 million. Historically, in the past when the net bad debt percent has approached 1% is when we have recommended and added additional collection resources.

## **COLLECTION AGENCY CONTRACT**

The contract for the collection of delinquent account receivables for the Division has not been solicited for a request for proposal since its original inception on January 7, 1967. The contract does not have a termination date. Consequently, the City may not be receiving the best return on the collection of delinquent utility account receivables. The vendor is paid 30 percent of the amount it collects which is significantly higher than that paid to other vendors who collect other type of delinquent receivables for the City. For example, the vendors that provide debt collection services for false alarm fees and parking violations are paid 12% and 15%, respectively, of the amount they collect.

Executive Order Number 92-9 establish the guidelines and procedures for departments in the selection and management of professional, technical or highly specialized services. Collection services are considered a professional service. All requests for the procurement of professional services sought by user departments are routed through the Purchasing Department via the Requests for Proposal (RFP) process.

## **RECOMMENDATION 7**

Requests for proposals for the collection of delinquent utility account receivables should be solicited.

## **AUDITEE RESPONSE**

UAD agrees with this recommendation and will begin the RFP process.

## **LATE FEES AND LIENS**

A late fee for delinquent utility bills is not assessed nor are liens filed as security for the collection of unpaid service charges.

Section 26.35 of the City of Tampa Code states that for any service charges not paid within thirty (30) days shall be delinquent, and there may be added to such charges a fee of six (6) percent of such charges to cover the additional administrative costs incurred by the city by reason of the customer's failure to pay charges within thirty (30) days.

Section 26.36 (b) states that in such instances where a customer has failed to pay any utility service fee, the City shall have, as security for the collection of the fee, a lien upon such building and upon any premises, lot, piece or parcel of land upon which such building may be situated.

The City is losing additional revenue by not charging late fees or placing liens on delinquent accounts. The Water Department, in August 2002, estimated late fees of approximately \$1,000,000 or greater could be charged for delinquent water and sewer service charges, and for accounts that are \$1,000 or greater in unpaid charges, \$250,000 would be available from the lien process.

## **RECOMMENDATION 8**

The Administration should consider assessing a late fee for delinquent accounts and filing a lien on the property as security for the collection of any unpaid charges.

## **AUDITEE RESPONSE**

The Administration is currently considering the assessment of a late fee. Also, it is considering the lien issue but wants to make sure the additional cost of resources to implement lien procedures would cover the incremental revenues that might be gained. Furthermore, legal analysis must be performed when considering liening property.

## **ILLEGAL CONSUMPTION**

Procedures were ineffective in minimizing revenue losses due to illegal consumption on rental properties. Our test of 25 inactive accounts with illegal consumption disclosed 4 accounts that were rental properties with water usage between the date the former tenant's account was closed and the start date of the new tenant's account. The illegal usage was not billed either to the owner of the property, former tenant, or new tenant.

Section 26-36(a) of the City of Tampa Codes states that an owner or present tenant will also be jointly and severally liable for unpaid service charges by a former customer to the extent the owner or present tenant has benefited directly from the service provided to the former customer. It was represented that it is difficult to determine who benefited from the use of the water during the period between tenant accounts. Section 26-31(a) states that there shall be no free service rendered for any utility service provided by the City. The Water Department estimates the annual revenue loss for water and sewer to illegal consumption to be over \$600,000.

We surveyed other jurisdictions on how they handle illegal usage on rental properties. For two local jurisdictions surveyed, the new tenant is billed for the usage and if disputed, the new tenant must provide proof of lease date. Another local jurisdiction reviews a list of turned off meters and ensures the name on the account agrees to the name of the owner of the property. For one other jurisdiction, when a tenant closes an account, the account reverts back into the name of the property owner. Thus, any usage would be billed to the owner of the property.

## **RECOMMENDATION 9**

The Division should consider reverting utility accounts closed by a tenant back to the owner of the property until a new tenant opens an account.

## **AUDITEE RESPONSE**

UAD will ask the Legal Department to review the legal sufficiency of this recommendation. UAD feels that its procedures are similar to most other jurisdictions (i.e., having tenants provide leases to assign usage responsibility).

## **ZERO USAGE PROCEDURES**

Adherence to the Division's Zero Usage Procedures should be improved. These procedures indicate when maintenance orders for active meters with zero usage are to be issued for each meter size. Our test of 25 active accounts with zero usage disclosed the following:

- For 3 accounts, the maintenance orders were not issued within the required timeframes;
- For 2 accounts, maintenance orders were not issued at all; and
- For 2 accounts, maintenance orders were issued but appear not to have been accomplished. The Billing Section is responsible for reviewing the meter maintenance orders that are over due per the Daily Overdue Service Order Report. It was represented that the report had not been reviewed for several months.

As a result, a meter may not be recording water usage resulting in loss revenue to the City.

## **RECOMMENDATION 10**

The procedures for monitoring accounts with zero usage should be enforced. The Overdue Service Order Report should be reviewed on a monthly basis.

## **AUDITEE RESPONSE**

A current part-time position in the Billing Section has been approved and is already in process which will allow us to keep caught up with zero consumption procedures. Zero consumption procedures are among the lowest priority in the billing process; however, they are still important.

## **CUT-OFF EXEMPTIONS**

Cut-off exemption service orders were not adequately monitored. Cut-off exemption service orders are created in the Multi-Service System (MSS) which cause accounts to be excluded from the delinquent or “cut-off” list monitored by UAD Credit and Collections Section. This type of service order is issued when there are disputes in charges of a bill or for customers who are on payment plans to pay off arrearages over time. It has the effect of suspending any action to turn off the water or discontinue other services. When the exemption is started a planned stop date is determined as well. The Solid Waste, Wastewater, and Water departments are responsible for monitoring and closing the cut-off exemptions they open. Orders that have reached the planned stop date and have not been closed appear on the Overdue Service Order Report. The report does not indicate which department opened the cut-off exemption service order. Thus, each department has to view each service order in MSS to determine if they opened it which is not an efficient use of resources.

As of October 6, 2004, there were 93 open cut-off exemption service orders (27 of which appeared on the Overdue Service Order report). We reviewed 15 of the orders and noted the following:

- Three service orders for which the planned stop date had passed had not been reviewed to determine if the exemption should be closed or extended.
- For one service order, the customer was not adhering to the payment plan and no follow-up had been performed.
- For 4 service orders, the customers paid the arrearage amount in full; however, the exemption had not been stopped upon full payment of the arrearage and the planned stopped dates for the exemptions were 5 to 23 months subsequent to the date the arrearage was paid.

Because of inadequate monitoring, customers not complying with payment plans are not pursued for collection and service orders not closed continue to be excluded from the cut-off list.

## **RECOMMENDATION 11**

The UAD Credit and Collections section should be responsible for monitoring cut-off exemption service orders to ensure customers are in compliance with payment plans and to ensure exemptions are terminated in a timely manner. The Overdue Service Order report should indicate which department opened the cut-off exemption service order.

## **AUDITEE RESPONSE**

UAD agrees that there could be improvements in monitoring of cut-off exemption service orders. Since exemptions are primarily initiated by the separate utility departments, we agree that the Overdue Service Order Report be modified to show clearly the department of origin. Cut-off exemption orders will be monitored by the UAD Credit Section and those that become current will be cancelled by them. We intend to implement a maximum time limit on the exemption, 6 months approximately, after which time the exemption would automatically expire.

## **RATIO ANALYSIS**

UAD only calculates net bad debts as a percent of sales to evaluate the Division's performance. However, several other standard ratio analyses can be used to assess UAD's collection practices. The average collection period shows the average number of days that receivables are outstanding. The account receivable turnover ratio represents the number of times account receivables are collected during the year. A low average collection period and a high turnover ratio indicate account receivables are adequately collected.

UAD's calculation of net bad debt (bad debt less bad debt collections) as a percent of sales was .64% for FY01, .67% for FY02 and FY 03. Our data is derived from the sources listed in the Statistics section and is depicted in the table below.

	<b><u>FY01</u></b>	<b><u>FY02</u></b>	<b><u>FY03</u></b>
<b>Average Collection Period of Receivables:</b>	49 days	48 days	46 days
<b>Receivables Turnover Ratio:</b>	7.5	7.7	8.0
<b>Bad Debts as a Percent of Sales:</b>	.85%	.91%	.96%

The analyses should be compared to industry standards and other municipalities to gauge future performance. For example, the following table shows fiscal year 2003 figures for Hillsborough County and the City of St. Petersburg. Both local jurisdiction statistics are significantly better than the City of Tampa's.

	<b>Hillsborough County</b>	<b>City of St. Petersburg</b>
<b>Average Collection Period of Receivables:</b>	31 days	19 days
<b>Receivables Turnover Ratio:</b>	11.7	19.7
<b>Bad Debts as a Percent of Sales:</b>	.19%	.20%

## **RATIO ANALYSIS (continued)**

### **RECOMMENDATION 12**

UAD should use other standardized industry ratios as a gauge to evaluate the division's performance, such as other jurisdictions of the Tampa Bay Area. If the ratios differ significantly from other entities the reason should be determined.

### **AUDITEE RESPONSE**

UAD agrees to explore using other standardized industry ratios in the future to help evaluate the Division's performance. (NOTE: Regarding the accounts receivable turnover, and average collection period statistics, UAD feels that these numbers may not be strictly comparable to other utilities since the City of Tampa has for 23 years read its water meters on a bi-monthly, rather than a monthly basis. Many customers will wait until they receive a "read" bill and pay after they know what they have used for a two-month period. Bi-monthly meter reading has allowed the City to save over \$500,000 in meter reading costs in Fiscal Year 2004, and approximately \$10 million over the past 23 years).

### **MAIL-IN READS**

In some situations meter readers do not have access to the meters. For example, meters are in the back yard, dogs are in yard, or meters may be on a roof. As such, the customer is responsible for obtaining a read and mailing the read to the Meter Reading & Services Section. It was represented that the mail-in reads from customers are not periodically verified. Consequently, meter readings submitted by mail may not be accurate.

### **RECOMMENDATION 13**

A procedure should be established requiring meter readings submitted by mail to be periodically verified for accuracy.

### **AUDITEE RESPONSE**

UAD agrees to establish a procedure for periodic verification of mail-in reads.

## **MULTI-SERVICE SYSTEM ISSUES**

### **System Access**

Thirty-six users were given access to critical functions within the Multi-Service System that were not needed to perform their job duties. As a result, unauthorized or erroneous transactions may occur without detection. User access capabilities should be limited to those functions necessary for users to perform their job duties.

### **RECOMMENDATION 14**

System access capabilities should be reviewed to determine if it is required by the users to perform their job duties. Access should be terminated for those users not needing it.

### **AUDITEE RESPONSE – Utility Accounting Division**

UAD agree to review system access capabilities for users in its organization and to terminate access for employees not needing it. We recommend this recommendation be shared with all other Departments using the MSS system.

### **AUDITEE RESPONSE – Water Department**

We concur with your recommendation. In April of every year, ITS sends each department a detail listing of each person's access. This listing is received by the Department Head (or designee) to review for unnecessary access. The process exists with more thorough review to take place.

### **AUDITEE RESPONSE – Wastewater Department**

We concur with your recommendation. More emphasis could be placed on the annual employee clearance listing to ensure each employee only has access capabilities required for their jobs. Access could also be limited for new employees until their knowledge of the system and job duties increase. Payroll currently requires class instruction prior to access. Perhaps, some type of class should be given prior to MSS access.

### **AUDITEE RESPONSE – Solid Waste Department**

We concur with your recommendation. We will review the user access capabilities and make necessary changes to limit accessibility based on the requirement of the user.

## **MULTI-SERVICE SYSTEM ISSUES (continued)**

### **Reports**

The Billing Section distributes various reports generated from the Multi-Service System to other sections within UAD. Our review of the Report Distribution list disclosed that 26 of the 45 reports received were either not used or thrown away. Consequently, unnecessary computer processing time expense and printing costs are incurred.

### **RECOMMENDATION 15**

Survey MSS users to determine what printed reports are needed. Then inform Information Technology Services to only print the necessary reports.

### **AUDITEE RESPONSE – Utility Accounting Division**

UAD agrees with this recommendation. UAD Billing Section Supervisor will notify end-users of reports and coordinate with the IT Department to cease printing of unnecessary reports.

### **Remarks**

Users can record comments in the “Remarks” section of the Customer or Location files. During our test of service charges, in some instances, there was no explanation for why a location did not receive a particular service. For example, for one account, the customer was billed for water and refuse service but not for wastewater services. We were informed that wastewater services were not available at this location. Prudent business practice requires an explanation be provided when a location does not receive a utility service provided by the City to ensure the accuracy of the services being billed.

In reviewing the collection efforts performed on delinquent accounts, in some instances, there were no notes recorded explaining the actions taken. For example, a credit collection order was requested but subsequently cancelled without an explanation recorded and the customer had not made a payment. Notes regarding actions taken or not taken on a delinquent account provides substantiating evidence that collection efforts are being made.

## **MULTI-SERVICE SYSTEM ISSUES (continued)**

### **RECOMMENDATION 16**

An explanation should be recorded in the “Remarks” section of the Location file when a location does not receive a utility service.

#### **AUDITEE RESPONSE – Water Department**

We concur with your recommendation. Explanations are inserted, but lack consistency. There are hundreds of location remarks available such as “Solid Waste service provided at (other address)”, or “No sewer service available”. We will follow up with (1) clear procedures, (2) communication of these procedures and (3) appropriate oversight.

#### **AUDITEE RESPONSE – Wastewater Department**

We concur with your recommendation. In the old computer system, addresses that did not have wastewater service were shown as “no sewer” under remarks. Although this information was brought over to the new MSS system, it has not been kept up.

To update the system, we would need a Location Remarks report that lists all accounts without sewer calculation, including refuse only accounts. After we eliminate areas that have no sewer lines, we would have to physically check each address for a possible sewer tap.

#### **AUDITEE RESPONSE – Solid Waste Department**

We concur with your recommendation. Unfortunately, the MSS system has very limited capabilities to accomplish all our requirements. Solid Waste Department is in the process of installing a different system (Tower System) to manage all commercial accounts after phase one and all accounts after phase two of installation and all account information will be maintained in this system.

### **RECOMMENDATION 17**

Comments regarding all collection actions taken or cancelled should be recorded in the “Remarks” section of the Customer file.

#### **AUDITEE RESPONSE - Utility Accounting Division**

UAD agree to review the additional effort that would be required to add a remark when canceling a collection work order to see if it can be easily accomplished.

## **WRITTEN POLICIES AND PROCEDURES**

Written policies and procedures for various aspects of the collection process do not exist. Such procedures would provide the guidelines so that the collections of delinquent utility accounts are handled in accordance with management expectations and procedures are consistently applied. For example, there were no written policies and procedures for the following:

- Criteria for reactivating an account with a delinquent balance or illegal usage;
- Criteria for when a collection work order will be issued to collect payment or discontinue service;
- Guidelines for granting and monitoring extensions and payment plans; and
- Collection policy for return checks.

## **RECOMMENDATION 18**

Written policies and procedures should be developed covering all areas of the collection of delinquent utility accounts.

## **AUDITEE RESPONSE**

UAD agrees and more specific written policies and procedures will be developed. (NOTE: The first item, reactivating of accounts will be done by the Customer Service Section, the last three items, and the additional governmental procedures suggested in #1, by the Credit Section).