

**Utility Customer Service
Delinquent Accounts Audit**

March 2015

**City Internal Auditor's Office
City of College Station**

File#: 14-03

Why We Did This Audit

This audit was conducted per direction of the City of College Station Audit Committee. The Audit Committee requested assurance and consultation services in regards to whether:

- (1) delinquent accounts are collected in accordance with proper procedures,
- (2) collections agencies are properly managed, and
- (3) uncollectible accounts are written off properly.

What We Recommended

Policies and Procedures should be updated to increase efficiency and eliminate procedural gaps.

Controls for the collections and write-off process could be strengthened.

The city should not delete the financial records of customers who still owe the city money.

Audit Executive Summary: Delinquent Accounts

What We Found

Overall, we found that Utility Customer Services is effective in collecting, managing, and writing-off delinquent accounts.

For the most part, delinquent accounts are collected in accordance with appropriate procedures. However, we also found that the current procedures could be made more efficient and that policies and procedures are not always consistently applied.

The city's collections agency appears to be well managed. The majority of delinquent accounts are properly on file with the collections agency, and we appear to be paying appropriate fees. However, as a somewhat minor issue, we found that payment dates often do **not reconcile between the city's records and the collection agency's records.**

Finally, we found that the current write-off policies and procedures have control deficiencies. Current write-off procedures could use stronger controls, and some financial records are being completely deleted from the system.

Delinquent Accounts Audit

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Introduction

The Office of the City Internal Auditor conducted this performance audit of utility customer service delinquent accounts pursuant to Article III Section 30 of the College Station City Charter, which outlines the City Internal **Auditor's** primary duties.

A performance audit is an objective, systematic examination of evidence to assess independently the performance of an organization, program, activity, or function. The purpose of a performance audit is to provide information to improve public accountability and facilitate decision-making. Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information. A performance audit of delinquent accounts was included in the fiscal year 2015 audit plan based on direction given by the Audit Committee.

Audit Objectives

This report answers the following questions:

- Are delinquent accounts collected in accordance with procedures?
- Were collection agencies properly managed?
- Were uncollectible accounts written off properly?

Scope and Methodology

This audit was conducted in accordance with government auditing standards, which are promulgated by the Comptroller General of the United States, with the exception of an external peer review.¹ Audit fieldwork was conducted from November 2014 through February 2015.

The scope of review included only utility customer service accounts. Because the City outsources the billings of most of its revenue generating sources, we found the delinquent accounts of all other city functions besides Utility Customer Service and the Municipal Court were immaterial. We decided not to include municipal court accounts in

¹ Government auditing standards require audit organizations to undergo an external peer review every three years.

the scope because procedures used by the Municipal Court differ substantially from the collection procedures employed throughout the rest of the City. Unique collection enforcement procedures are available to the Municipal Court due to the legal nature of these accounts.

To arrive at our findings we reviewed the work of auditors in other jurisdictions and researched professional literature to identify: (1) applicable laws and regulations, (2) delinquent account management best practices, and (3) common forms of fraud or abuse related to delinquent accounts. We also interviewed city staff involved with the management of delinquent accounts. Finally, we analyzed relevant documentation and data regarding delinquent accounts.

Background

Utility Customer Service (UCS) is a division of the Fiscal Services Department responsible for setting up customer accounts, connecting and disconnecting utility services, reading meters, billing and collecting utility customer accounts and addressing customer concerns. Table 1 below describes the budgeted expenditures and full-time equivalent positions in UCS from fiscal year 2013 to 2015.

Table 1: Utility Customer Service Budget (fiscal years 2013 -2015)

FTE Positions	FY13	FY14	FY15
Billing/Collections	17.00	17.00	17.00
Meter Services	<u>10.50</u>	<u>11.00</u>	<u>12.00</u>
Total:	27.50	28.00	29.00
Expenditures			
Salaries & Benefits	1,281,240	1,353,395	1,387,013
Supplies	47,251	55,182	70,874
Maintenance	20,153	42,043	26,352
Purchased Services	<u>803,833</u>	<u>780,913</u>	<u>844,795</u>
Total:	2,152,477	2,231,533	2,329,034

Utility Customer Service processes more customer payments than any other division in the City. In 2014, UCS processed over 500,000 customer payments for approximately \$141 million. Roughly 92% of the \$141 million are electric, water, or wastewater payments. Sanitation payments make up 6%, and most of the remainder are charges incurred by other city departments. Table 2, on the next page, provides a summary of the different types of payments processed by UCS over the past three years.

Table 2: Utility Customer Service Customer Payment Methods (in thousands)

Payment Type	2012	2013	2014	Average
Mail Payments	\$ 51,547	\$ 47,128	\$ 43,483	\$ 47,386
Internet Payments	44,244	44,606	44,405	44,419
Bank Draft	18,772	23,873	27,064	23,236
Over-the-counter	17,091	17,082	19,166	17,780
Department Payments	2,747	2,817	2,821	2,795
Wire/Electronic Payments	2,959	2,604	2,116	2,560
Deposit Refunds	890	1,202	1,238	1,110
Other Payment Types	67	107	1,178	451
Total:	\$ 138,317	\$ 139,419	\$ 141,471	\$ 139,737

Utility Customer Service utilizes several enforcement methods in order to maximize collections. Approximately one week after meters are read for a particular one month billing cycle, utility customers are billed. These bills are due close to three weeks later. **Customers are assessed a late fee a day after the bill's due date if full payment is not made. The first notice of this late fee appears on the customer's next bill.** After 30 days, UCS will cut off power from customers who still have not paid their utility bills. Automated notices are sent out the day before cut off. **During this process they don't normally cut off water.** Sometimes a customer will attempt to turn back on their power. If a customer tampers with their electric meter by cutting the meter seal, there is an additional \$50 fee.

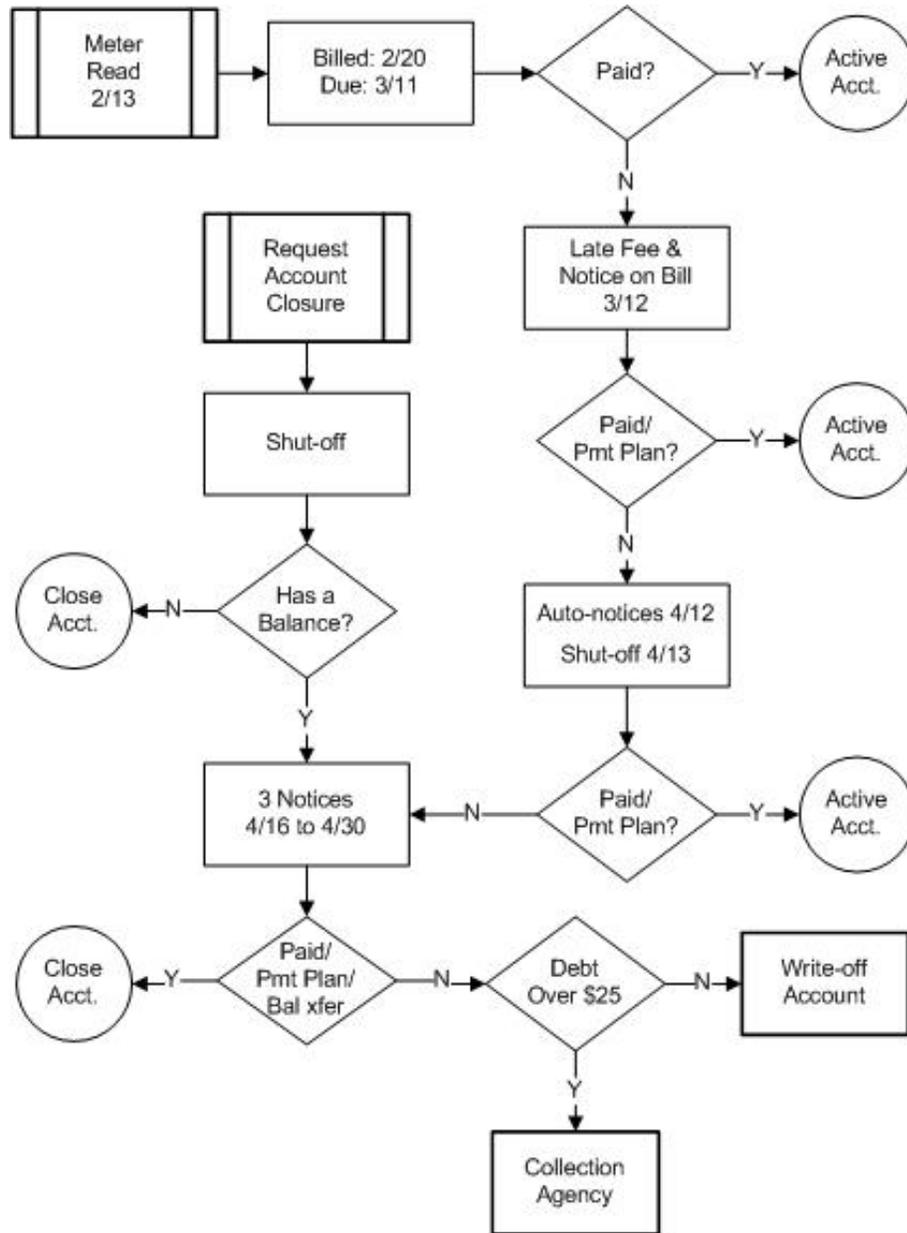
On the 15th of every month, a system generated report is created that pulls all the customers that were terminated (disconnected service) in the last 30 days that still have an outstanding bill. Utility Customer Service uses this list to contact the terminated customers. They send a final bill, one bill notice, two emails, and one phone call to try and collect money owed before sending the list to the collections agency. The customer has 30 days from whence the delinquent list was created to pay their bill. **If they don't pay within this 30 days window, their bill is sent to the collections agency, MVBA.** Sometimes the City is able to get customers onto a payment plan within the 30 day window to avoid sending the account to the collections agency.

The remaining list of terminated customers that UCS is unable to collect is sent to collections on the 15th of the next month. For the first 30 days at MVBA, the **customer's credit rating is not affected.** MVBA collects a 12% fee of all payments made from customers who have been sent to them.

When the list is sent to collections, the bills are still active in the system for two years. After two years, the bills go into the write-off process. The **City's CFO** does not normally approve the write-offs but does receive an activity report each month. When the process is approved, the system takes all of the accounts in collections status and moves them

into the write-off account. Figure 1 provides visual description of the collections process in Utility Customer Service.

Figure 1: Billing Cycle 8 (Jan 15 to Feb 13) Delinquency Example



From 2008 through 2014 approximately \$5.63 million in delinquent account balances have been sent to collections. In this same period, the City received \$862 thousand in payments from this outstanding debt. Additionally, the amount sent to collections is a very small amount compared to the total amount of customer payments. For example, from 2008 through 2014 the average percentage of uncollectible accounts was under

0.6%. From 2011 to 2014 this percentage has continued to decrease. Table 3 below provides a comparison between the total payments collected by UCS to the delinquent accounts sent to collections.

Table 3: Payments That Are Sent to Collections

Year	Total Payments	Sent to Collections	Collections % of Pmts	Amount Collected	Amount Uncollected
2008	\$ 111,619,000	\$ 563,000	0.50%	\$ 128,000	\$ 435,000
2009	120,497,000	745,000	0.62%	137,000	608,000
2010	129,938,000	827,000	0.64%	157,000	670,000
2011	143,413,000	1,240,000	0.86%	195,000	1,046,000
2012	138,316,000	904,000	0.65%	145,000	759,000
2013	139,420,000	740,000	0.53%	80,000	661,000
2014	141,469,000	611,000	0.43%	20,000	591,000
	924,672,000	5,630,000	0.61%	862,000	4,770,000

Through Table 3, we can also observe that over the past few years UCS has been more effective at collecting on delinquent accounts prior to sending the account to the collection agency. On the other hand, the collection agency has been less effective at recovering outstanding debt owed to the City. The timing of this observation corresponds with a change instituted in UCS whereby delinquent customers are contacted multiple times after their electricity is shut-off (see Figure 1). Stricter deposit requirements were also instituted in 2012, which could have also contributed to the improved collection rate.

Analysis and Recommendations

Collections Policies & Procedures

Compliance with Collection Policies and Procedures

We found that the current policies and procedures adequately address the general rules for delinquent accounts, however at times they do not address the exceptions to the rules. As a result, there is some risk that customer accounts may be treated in an inconsistent manner.

Generally, we recommend that the policies and procedures for delinquent accounts be revised. The revised policies and procedures should attempt to minimize exceptions to rules. When there are exceptions, they should be written in to the policies so that staff

can uniformly perform their duties. Two specific areas we found had insufficiently written policies and procedures were: (1) the handling of bankruptcy and temporary sanitation accounts, and (2) the handling of delinquent pay plan accounts. Our findings which led us to this conclusion are discussed in greater detail in other sections of this report.

Some Collection Procedures Could Be Automated

We found that some procedures for delinquent accounts are largely manual when they could be automated. For example, we found that a significant amount of time is spent sending emails to customers to inform them of their delinquent accounts. UCS staff has made efforts to make this process efficient. In addition, since this procedure was implemented, the amount of delinquent accounts needed to be sent to the collections agency has significantly decreased (see Table 3 on page 6). However, this process could be improved through automation. UCS should work with IT to develop a process that allows UCS to automatically download into a spreadsheet the customer information that needs to be emailed out. They should then create a template e-mail in outlook that can use mail-merge to quickly send personalized emails to all individuals on the spreadsheet.

USC Procedures Are Mostly Effective

Overall, UCS procedures are quite effective. Considering the tens of thousands of active accounts, we found relatively few accounts with noteworthy errors. There are three findings worth mentioning here: (1) the City does not place liens on properties with delinquent payments, (2) a few accounts were not in collections status when they should have been, and (3) some account balances were not transferred when they should have been.

Liens. During the audit we found an instance of a customer who was the owner of a large apartment complex. This customer sold the complex while at the same time owing the city money for utilities used. This customer subsequently failed to pay the amount owed for utilities, and in the end the city had to write off nearly \$20,000.²

Under the Texas Local Government Code, the **City can impose a lien on an owner's** property to collect for delinquent utility bills but first must adopt an ordinance to do so. The **City's** utility ordinance does not include that language.

² Because this customer owned an apartment complex, the customer had 99 different accounts, the amounts written off on each account ranged from \$1,574.87 to \$0.94 (averaging \$198.16).

Therefore, the City may want to consider passing an ordinance that would allow for liens. This would enable the City to collect on delinquent accounts out of the proceeds of the property's sale.³

Accounts not in collections status. We found seven accounts that were not changed to collections status when they should have been. This of course constitutes a very small error rate and is a strong indicator of the effectiveness of UCS' procedures. Nevertheless these seven errors are symptomatic of a risk that should be addressed. It appears that these accounts did not get moved into collections status **because they were "held" due** to pending transactions. For example, an account terminated in May of 2012, still has a "Finalized" status (as of February 2015) even though \$441.24 has remained on the balance since June 2012. The apparent reason this account has been held by the system, and not moved to collections status, is a pending transaction created in May 2012. Even more curiously, this pending transaction is for the amount of \$0.00.

Transferred balances. Before sending an account to collections, UCS procedures dictate that staff check whether the account holder has any other active accounts with the City. Additionally, when a customer opens a new account, UCS staff check whether that customer has any past amounts owed. If so, UCS staff transfer the delinquent balance to the active or new account. This procedure increases the likelihood that a customer will pay their delinquent account while also eliminating the need to pay a fee to the collections firm.

We found 8 delinquent accounts worth more than \$25 that were not transferred when they should have been. (The total value of these 8 accounts is \$1,837). This constitutes only about 0.05% of accounts that were in collections or write-off status. However, these 8 accounts were found using only one type of analysis; therefore, more might be found using other forms.

Customer Deposits Policies and Procedures

Requiring customers to pay a deposit on their account is a useful way to help prevent delinquencies. This is because if a customer fails to pay their bill the deposit can be applied to the amount owed.

³ It should be noted that there are some limitations to using a lien as a remedy for delinquent accounts. For example, the City cannot impose a lien on homestead property. If the property is rental property, the **City cannot impose a lien if the service is connected in a tenant's name after the owner has given notice** to the City that the property is rental property. If the service **is connected in a tenant's name prior to the date an ordinance goes into effect**, the City is prohibited from placing a lien on the property. And, if the lien is placed on the property following its sale, we would not be able to collect from the proceeds since the money would have been paid out prior to the lien.

UCS Does Not Require Deposits from all Customers

Homeowners are not required to pay an initial deposit in order to receive utility service. After two late payments in 12 months; however, the homeowners are billed the deposit amount unless they enroll in auto pay. After the first auto pay return/non-payment, the deposit is billed in one installment. The deposit amount for all residential accounts is 1½ times the estimated average monthly bill.

Renters are billed a **deposit on the first month's bill in one installment. The only** exemption from deposit is for those who enroll in auto pay. After the first auto pay return/non-payment, the deposit is billed in one installment.

Commercial accounts pay a deposit of two times the annual estimated monthly bill amount. Exemptions are granted for customers who provide a letter of credit from a utility company showing 24 months of service with no late payments, or returned checks or disconnects for non-payment in the most recent 12 months.

If an account is disconnected for non-pay, the deposit amount is evaluated to ensure adequate deposit is on account. If not, additional deposit amounts will be collected. Deposit refunds apply to the final bills or they may be refunded for good payment record by request after 24 months of service with no more than two late payments.

Deposits Are Not Sufficient to Cover Delinquencies from Renters

Because one of the primary purposes of requiring deposits is to prevent accounts from having to enter collections, an important measure of the effectiveness of our deposit policies are how many accounts must be sent to collections. The following table shows the amount of accounts moved to collections status from August 1, 2012 to July 31, 2014.

Table 4: Payments That Are Moved to Collections Status

Customer Type	No. Sent to Collection	Total Number	% Sent to Collection	Total Sent to Collection	Avg. Sent to Collection
Owners	84	7,599	1.1%	\$ 12,953	\$ 153
Tenants	1,828	11,503	15.9%	\$ 610,893	\$ 334
Contractor	10	1,041	1.0%	\$ 851	\$ 85
Unlabeled	264	3,765	7.0%	\$ 96,694	\$ 366

From Table 4 we can see that tenants are the primary source of accounts (and dollars) sent to collections. Therefore, if the City wants to reduce the amount of delinquent accounts, efforts should be focused on tenants.

However, we found that simply raising deposit amounts may not be a feasible method for reducing the number of delinquent accounts among tenants. According to our calculations, in order to decrease the number of delinquent accounts by 50% through raising deposit requirements, deposit amounts would have to increase by about \$280 per customer. If UCS wanted to get to the 1% rates found among owners and contractors, UCS would probably have to raise deposits by more than \$700 per customer.

We also found a strong correlation between a customer being on auto pay and not being sent to collections. While 16% of tenants are sent to collections at some point, we found that only 2% of tenants who are signed up for auto pay were sent to collections. Because approximately 31% of tenant accounts are on auto pay, the City may be able to reduce the number of delinquent accounts among tenants by increasing the number of tenants who use auto pay.

However, the city already offers one incentive for signing up for auto pay (not requiring a deposit) and it is possible that the low numbers of tenants signing up for auto pay is not from a lack of desire, but a lack of feasibility. For example, tenants with roommates **may not want to sign up for auto pay if it means being on the hook for their roommates' portion of the utility bill.**

Management of Collection Agencies

The City is currently contracted to McCreary, Veselka, Bragg and Allen, Attorneys at Law (MVBA) for collections. MVBA's compensation for providing professional services for representation in the collection of delinquent utility bills is twelve percent (12%) of the amount collected by the City on those accounts in which the data files are transmitted to MVBA by electronic media. MVBA charges a fee for all payments made by customers that have been sent to them for collections—this is true even if MVBA had nothing to do with the collection.

Risk of Double Billing Exists Due to Inaccurate Payment Dates

New invoices contained old payments. We conducted a review of all MVBA invoices in fiscal year 2014. We found that the City paid fees to MVBA for some accounts that had been paid off by the customer in previous years. Specifically, we found that about 10% of the fees invoiced in fiscal year 2014 were for accounts that had been paid off by the customer more than a year earlier.

Having large gaps between the date the payment was made and the date MVBA invoices the City makes it difficult for UCS to ensure that it is not being double-billed. Table 5

below shows the amount of time between the payment date and the invoice date for accounts invoiced by MVBA in fiscal year 2014.

Table 5:
Invoice & Delinquent Payment Dates Gaps

Gap	No. Accounts	%
Less 1 month	183	26%
1-2 months	214	30%
2-3 months	71	10%
3-6 months	124	17%
6-12 months	53	7%
1-2 years	37	5%
2-3 years	20	3%
3+ years	<u>12</u>	<u>2%</u>
Total	714	100%

We were informed that the likely cause of the large gap between payment and invoice date is that the duties of taking payments from customers and recording the receipt of **the payment in MVBA's system are segregated amongst** UCS staff (which is a proper internal control). However, because payment receipt notification is not fully automated, errors can occur when a payment is received by the City **but not recorded in MVBA's** system. When this happens, the customer still has a mark on their credit report despite having paid the balance on their account. Typically, the customer will later learn that the mark is still on his or her record and notify UCS of the error; but this may be at a much later date. This at least partially explains why we found several instances of delinquent customer bills that have been paid in years previous to when they were invoiced.

City's payment dates did not match MVBA's payment dates. We also found that the date of payment listed on MVBA's invoices often differed from the date listed in the City's information system. The two dates did not reconcile approximately 44% of the time in fiscal year 2014. There were twenty-five instances where the dates differed by over a year. When payment dates do not reconcile, it makes reconciliation of the overall payment much more difficult.

There is a Low Risk that MVBA Is Intentionally over Billing

When reviewing invoices for accuracy, UCS does not check every single line item on an MVBA invoice, but rather the total invoice amount is reviewed for reasonableness, and they verify that MVBA billed 12% of the total payment and not some other percentage. Therefore, we conducted a review of fiscal year 2014 MVBA invoices to determine if there were any instances where the City was over charged.

Based on this review, we found at least seven instances where the amount MVBA invoiced did not match with internal records maintained by the City. In total, it appears that the City was overcharged \$121. This constitutes less than 1% of the total amount we paid to MVBA that year. Given this perspective, the \$121 in potential over charges does not meet the threshold of materiality.

Through the course of this review; however, we discovered two areas of note. First, according to UCS, MVBA should not be invoicing the City **when a customer’s delinquent balance is paid through the deposit amount the customer paid when the account was created.** However, we found at least one instance of this occurring.

Second, we found two instances where the City paid a fee to MVBA before the city had actually received the delinquent payment. In doing so, the City risked paying a fee on a payment that subsequently may never be received. However, both of the cases found **appear to be the result of human error rather than a flaw in the city’s processes.** Furthermore, given the small number found, it is not a material error.

Whether these are isolated instances or systemic, neither case appears to be caused by a willful intent to over bill the City.

Some MVBA Accounts Do Not Reconcile to City Records

We found a number of accounts that are in collections status that could not be **reconciled to MVBA’s accounts, but probably should be.** As of February 2015, we found 28 accounts that should have been sent to the collections firm from 2012 to 2014, but were not **in MVBA’s records.** This makes up less than 1% of the accounts that were actually sent to the collections firm during the same time period.

Table 6: Accounts Missing from MVBA’s Records

Yr-Mnth to Collections	Non-reconciled	Total Amount	Average Amount
2012	10	\$5,908	\$591
2013	4	\$1,796	\$449
2014	14	\$3,769	\$269
Total:	28	\$11,472	\$410

It appears that some of these accounts were not sent to the collections agency because they had been on a failed pay plan. When the accounts were then moved from the pay plan to collections status, the step of sending the accounts to the collections firm was skipped. It is unclear why the remaining accounts were not sent to collections. UCS may want to re-evaluate its processes to ensure all accounts that should be sent to a collections agency are sent to the collections agency.

Uncollected Accounts Write-off Procedures

According to city policy, write-offs should be performed two years after accounts are sent to the collections agency. When an account is written off in the Utility Customer Service (UCS) system, the delinquent amount is removed from the system and placed in another account in the City's accounting system. Delinquent accounts that have a balance under \$25 are written off without being sent to a collections firm. The \$25 threshold has been in place for over 25 years.

Most Write-offs Occur 2 Years after Accounts Enter Collections

We reviewed all accounts sent to write-off from July 2004 to November 2014.⁴ As can be seen in Table 7 below, about 98% of write-offs occur at or near 24 months.

Table 7: Non-small Accounts Time in Collections before Write-off (Jul 04 to Nov 14)

Months	Count	%Count	Sum	%Sum	Average
0-6	1	0.01%	\$ 74	0.00%	\$ 74
7-13	5	0.04%	1,377	0.03%	275
14-20	136	1.05%	42,759	0.90%	314
21-27	12,768	98.11%	4,563,651	95.58%	357
28-34	87	0.67%	130,999	2.74%	1,505
35-41	6	0.05%	17,216	0.36%	2,869
42-48	5	0.04%	5,567	0.12%	1,113
49-55	6	0.05%	12,924	0.27%	2,154
	13,014		\$ 4,774,567		\$ 366

We observed that accounts that are written off after more than 24 months have larger than average amounts due. This is primarily due to the fact that many of the accounts written off after 27 months are in bankruptcy. However, we also found 7 accounts that were written off late for unknown reasons.

For accounts written off in less than 24 months, we were primarily concerned with accounts that were never forwarded to the collections firm (since the collections firm continues to search for accounts even if they are written off). There were four accounts that were written off in less than 21 months and never sent to the collections firm.

We also found inconsistencies in the timing of the write-off of small accounts (less than \$25). It appears that some staff write off the account at the time the account would be

⁴ This date was chosen because it is when the two year write-off period began. Effective 7/14/04, no write-offs were to be performed for one year to allow them to get a two year write-off period.

sent to collections, while other staff write off the account after the 2 year waiting period. The question of when these small accounts should be written off is, ultimately, not very important. But it is important that UCS be consistent in its policies and procedures.

Write-off Procedures in UCS Lack Adequate Controls

There is no formal approval process for writing off a delinquent account. In addition, customer service representatives who work the front desk (and therefore receive payments/have custody of money) also have access to the records, and are authorized to write-off bad debts.

Write-offs are processed on the 15th of each month. The accounts are automatically placed on hold until a customer status is changed from held to non-held; otherwise, the system will not allow the account to be written off. Although UCS's **procedure** only includes performing write-offs of many accounts at once, there is no system limitation that requires this. In other words, the system allows write-offs of individual accounts.

We also conducted a review to determine if there are any instances of accounts being written off without first having a collections status in SunGard. Although we did not find any instances of this occurring, we found that because some accounts in collections status were never actually forwarded to the collections firm, customer service representatives have the ability to write-off accounts that are not being collected on.

This creates a significant control deficiency in that a theft could occur by a single employee performing the following actions: (1) receive money from the customer who is closing their account, (2) steal the money, (3) final the account, (4) move account to collections status, (5) before accounts are sent to the collections firm, move the account to write-off status, (6) take the account off hold, (7) write-off the account.

In the above situation, the primary risk of being caught is that if the former customer tries to reopen an account, the system will flag that the customer had some amount written off. However, many customers will leave College Station and never come back. Additionally, those who do come back, if gone for long enough, are unlikely to remember/have records to show whether they had paid off their last bill when they left the City.

Deleting Accounts with Balances Increases the Risk of Fraud

As of February 9, 2015, there were 65,642 customer accounts that have been deleted from the utility billing information system.⁵ The last deletion of a customer record occurred in December 2014. When an account is deleted, all record of the account is

⁵ There have been a total number of 184,410 accounts created.

removed from the system. Some data is stored on laserfiche, but this information is largely unusable for purposes of fraud detection.

When accounts are deleted, it occurs for two different reasons: First, there are deletions of individual accounts. This procedure can be performed by UCS staff, and generally occurs when a customer account is created, but then the customer cancels the account before anything **actually happens. For example, this may occur if a tenant's lease falls** through and they never end up moving in. So long as there was never any activity (such as work orders, etc.) UCS staff can delete the account. We confirmed that UCS staff cannot delete accounts that have account activity.

The second form of deletion involves the mass deletion of accounts (sometimes referred to as a "purge"). **The deletion of these accounts can** include accounts with activity—and even include accounts that still owe the city money. However, according to UCS policy, only accounts that have not had any activity for many years and do not have a balance owed to the City should be deleted. The mass deletion of accounts can only be performed by members of the IT department.

Deleting financial records carries significant risk of fraud. This is because if a fraud does occur, deleting the financial records related to the fraud can make the fraud nearly impossible to detect. Therefore, if an organization must delete financial records, it is crucial that proper controls are in place.

In examining the City's practice of deleting the financial records of utility customer accounts, we found two control deficiencies: (1) segregation of duties were inadequate, and (2) accounts with delinquent balances were deleted.

Insufficient segregation of duties. UCS staff do not have the ability to delete customer accounts with past activities. Instead, this ability resides with the IT department. This is a good control; however, we found that in practice, IT deletes the accounts that UCS directs them to delete—which is substantively the equivalent of giving UCS the ability to delete customer accounts.

Accounts with delinquent balances were deleted. Using records obtained from MVBA (the City's collection agency), we were able to determine that the City deleted at least 10 customer accounts with delinquent balances. A total of \$2,194 is still owed on these accounts. The date received for these accounts ranged between June 2007 and April 2009.

MVBA was only contracted in 2007. Prior to this, the City contracted with Financial Control Services (FCS). According to paper records, as of March 2014, there are 5,460 accounts still on file with FCS. We took a random sample of 30 of the 5,460 FCS accounts previously mentioned to derive an indication of the percentage of accounts

that are missing from the City's information system (i.e. SunGard). Table 8 below summarizes these results.

Table 8: FCS Accounts Missing From SunGard

In SunGard?	Count	Percentage	95% Confidence Interval
Yes	1	3%	.02% to 10%
Probably not ⁶	4	14%	1% to 26%
No	25	83%	69% to 96%
No & Probably Not	29	97%	91% to 99.98%

Even though Table 8 has fairly large confidence intervals, it is still obvious that there are thousands of accounts that are in FCS' records that are not in SunGard.

Even after an account is deleted from the system, the collection agency may continue to attempt to collect on the account. We are aware of at least one instance where a customer has attempted to pay on an account that has been deleted from the system. Because there was no account available for the customer to apply a payment, the customer service representative did not take the payment (since he could not confirm whether the customer truly still owed the money). However, the City employee could have just as easily taken the payment and pocketed the money, and there would be no means to identify the theft.

The process of deleting accounts from the system was originally implemented due to capacity issues of legacy hardware. However, these capacity concerns are no longer an issue due to a hardware upgrade.

Front Counter Employees Rotate Writing-off Accounts

According to UCS management, write-offs are performed by utility customer service representatives primarily charged with serving customers at the front counter. We found that there have been seven different employees that have performed write-offs since 2007. Six of these employees are customer service representatives; with their supervisor also performing write-off duties. Table 9 on the next page provides a summary of the dollar amount of write-offs performed by these employees each year between 2007 and 2014.

⁶ This means we found a name match, but the account number did not match.

Table 9: Amount of Write-offs Processed by Utility Customer Service Employees

Year	Cust. Serv. Supervisor	Customer Service Representatives					
		A	B	C	D	E	F
2007	\$ 0	\$ 0	\$ 0	\$ 34,431	\$ 92,233	\$ 24,736	\$ 114,988
2008	61,242	0	0	90,736	30,954	121,443	53,357
2009	0	0	0	61,788	136,636	52,472	129,256
2010	1,163	0	0	56,409	23,360	338,403	194,764
2011	0	0	0	89,723	220,344	74,624	240,259
2012	194,639	0	0	0	148,579	467	438,602
2013	0	0	501,764	0	0	265,887	239,648
2014	101,064	200,454	0	0	0	69,533	322,837
	358,109	200,454	501,764	333,087	652,106	947,565	1,733,711
Hire Date	2.12.90	2.8.10	12.10.12	1.18.96	6.8.81	9.16.84	10.2.00
Term Date				8.3.12	12.7.12		

We found that write-off duties (for the most part) rotate every two to four months amongst the employees described in Table 9. Although there were employees who had significantly higher levels of write-offs (in both frequency and amount); we found that those anomalies corresponded to times when turnover was experienced in UCS.

Summary of Audit Recommendations

(1) The policies and procedures should be revised. The revisions should focus on the following aspects:

- Procedures should be automated as much as possible. This will increase efficiency, and decrease human errors.
- In areas where the policies and procedures cannot be automated, UCS should carefully design the procedures in order to minimize errors, while also balancing the need for efficiency.
- Policies and procedures should avoid allowing for exceptions.
- All exceptions to the general policies and procedures should be documented.

Specific topics within the policies and procedures that ought to be addressed are:

- Bankrupt accounts, temporary sanitation accounts, and any other similar types of accounts.
- Pay plan policies and procedures.
- **The handling of accounts with overly long “pending transactions.”**
- Ensuring all accounts that should be sent to the collections firm actually are sent.
- **Ensuring that payment dates recorded in UCS’s system match the collection firm’s records.**

- Consistently transferring delinquent balances.

(2) Controls for the collection and write-off process should be strengthened. In order to successfully hide a fraud, fraudsters need to ensure the collection agency never receives the **fraudulent account's information, then the fraudsters must successfully write-off** the account. To prevent the fraudster from accomplishing this, staff duties should be segregated. Ideally, there should be a segregation between those staff who receive payments, those staff who process collections, and those staff who write-off accounts. Alternatively, these duties could be rotated among staff, so long as the rotation schedule does not allow the same individual to perform all duties on the same customer account. Currently, collections processing has been segregated by being assigned to one member of staff, and the write-off process is being rotated among other staff members.

UCS can further strengthen its controls by adding an approval level to the write-off process. Ideally, every write-off should be individually reviewed and approved. However, because there is a fairly large number of accounts that must be written off, this may not prove feasible. Therefore, UCS may alternatively decide to only give individual scrutiny to accounts written-off in less than two years, as these are the accounts at highest risk of fraud.

(3) Customer financial records should not be deleted. The City should adopt a policy of never deleting records from the utility billing system. This includes never deleting inactive accounts as well as never-used accounts. There should be no gaps between the numeric account numbers.

However, in the future, this recommendation may not always prove feasible due to data storage capacity limitations. Therefore, if the city must delete records the following criteria for deleting should be met:

1. Specific criteria should be established for deleting:
 - No account with activity within the last four years should be deleted. (The city may select a period of time greater than four years, but should not select less than four years).
 - Preferably, no account that has ever had a delinquent balance should be deleted. At the very least, no account with a remaining balance, written-off balance, or otherwise unpaid balance should be deleted. Accounts that are on file with a collections firm should also not be deleted.
2. Before each delete, at least two approvers should fill out a checklist confirming that the above criteria had been met on *every* account deleted. This procedure should be performed even though it may be time consuming because deleting records carries significant fraud risk. Ideally, these approvers would be the Utility Customer Service Supervisor and someone separate from her staff (e.g. Finance Director, Division Director, or Assistant Director of IT).

To: Ty Elliott, Internal Auditor
Through: Kelly Templin, City Manager
From: Jeff Kersten, Assistant City Manager
Date: March 18, 2015
Subject: Management Responses to Recommendations - Performance Audit: Utility Customer Service Delinquent Accounts

1. **The policies and procedures should be revised.** The revisions should focus on the following aspects:
 - Procedures should be automated as much as possible. This will increase efficiency, and decrease human errors.
 - In areas where the policies and procedures cannot be automated, UCS should carefully design procedures in order to minimize errors, while balancing the need for efficiency.
 - Policies and procedures should avoid allowing for exceptions.
 - All exceptions to the general policies and procedures should be documented.

Specific topics within the policies and procedures that ought to be addressed are:

- Bankrupt accounts, temporary sanitation accounts, and any other similar type of accounts.
- Pay plan policies and procedures.
- **The handling of accounts with overly long "pending transactions."**
- Ensuring all accounts that should be sent to the collections firm actually are sent.
- **Ensuring that payment dates recorded UCS's system match the collection firm's records.**

Management Response: *Management concurs that the policies and procedures related to delinquent accounts should be reviewed and revised. The Utility Billing portion of the ERP Implementation will begin in late April. As part of that implementation most of the policies and procedures as well as processes will be evaluated and updated. The results of this audit will be used as these policies and procedures are being revised.*

2. **Controls for the collection and write-off process should be strengthened.** In order to successfully hide a fraud, fraudsters need to ensure the collection agency never **receives the fraudulent account's information, then the fraudsters must successfully** write-off the account. To prevent the fraudster from accomplishing this, staff duties should be segregated. Ideally, there should be a segregation between those staff who receive payments, those staff who process collections, and those staff who write-off accounts. Alternatively, these duties could be rotated among staff, so long as the rotation schedule does not allow the same individual to perform all duties on the same customer account. Currently, collections processing has been segregated by being assigned to one member of staff, and write-off process is being rotated among other staff members.

UCS can further strengthen its controls by adding an approval level to the write-off process. Ideally, every write-off should be individually reviewed and approved. However, because there is a fairly large number of accounts that must be written off, this may not prove feasible. Therefore, UCS may alternatively decide to only give individual scrutiny to accounts written-off in less than 2 years, as these are the accounts at highest risk of fraud.

Management Response: *Management concurs that the collection and write off processes should be reviewed to see where they can be strengthened. These processes will be reviewed to determine what changes should be made. Duties for the collection process will be rotated. The write-off process is already being rotated. Management will review the write-off process and the timing of the write-offs to determine what changes should be made to reduce the risk of fraud.*

3. **Customer financial records should not be deleted.** The city should adopt a policy of never deleting records from the utility billing system. This includes never deleting inactive accounts as well as never-used accounts. There should be no gaps between the numeric account numbers.

However, in the future, this recommendation may not always prove feasible due to data storage capacity limitations. Therefore, if the city must delete records the following criteria for deleting should be met:

1. Specific criteria should be established for deleting:
 - o No account with activity within the last four years should be deleted. (The city may select a period of greater than four years, but should not select less than four years).
 - o Preferably, no account that has ever had a delinquent balance should be deleted. As the very least, no account with a remaining balance, written-off balance, or otherwise unpaid balance should be deleted. Accounts that are on file with a collections firm should also not be deleted.
2. Before each deleted, at least two approvers should fill out a checklist confirming that the above criteria had been met on *every* account deleted. This procedure should be performed even though it may be time consuming because deleting records carries significant fraud risk. Ideally, these approvers would be the Utility Customer Service Supervisor and someone separate from her staff (e.g. Finance Director, Division Director, or Assistant Director of IT).

Management Response: *There may be situations where it is determined to be valid and appropriate to delete an account. Management concurs that a formal policy and procedure for deleting account records should be established. If it is determined that account records need to be deleted for a valid reason, this policy and procedure will be utilized for that process. As part of the new ERP implementation, records storage and management will also be reviewed to determine the best option to retain historical data. Management will weigh the costs and benefits of implementing the recommendation.*