



REPORT TO AUDIT COMMITTEE

915 I Street, Sacramento, CA 95814-2604

www.CityofSacramento.org

Staff
June 12, 2012

Honorable Members of the Audit Committee

Title: *City of Sacramento Utility Billing Audit*

Location/Council District: Citywide

Recommendation: Accept the *City of Sacramento Utility Billing Audit* and forward to City Council for approval.

Contact: Jorge Oseguera, City Auditor 808-7270

Presenters: Jorge Oseguera

Department: Office of the City Auditor

Division:

Organization No: 01001201

Description/Analysis

Issue: This audit was approved as part of the 2011-2012 Audit Plan. As audit resources are limited, the City Auditor contracted out this audit to Macias Consulting Group, Inc. According to City Code Chapter 2.18, the City Council should be kept apprised of the City Auditor's work. The Audit Committee shall receive, review, and forward to the full Council the City Auditor's updates and reports.

The Audit and the Department's response are attached.

Policy Considerations: The City Auditor's presentation of the *City of Sacramento Utility Billing Audit* is consistent with the Mayor and City Council's intent to have an independent audit function for the City of Sacramento.

Environmental Considerations: None.

Sustainability Considerations: None.

Rationale for Recommendation: The report contains seven findings and makes 11 recommendations for improving the operations, controls, and management of the City's utility billing system.

Financial Considerations: The costs of this contract were funded out of the City Auditor's 2011-12 budget.

Emerging Small Business Development (ESBD): No goods or services are being purchased as a result of this report.

Respectfully Submitted by:  _____
Jorge Oseguera, City Auditor

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CITY OF SACRAMENTO
CALIFORNIA

Office of the City Auditor
Jorge Oseguera, City Auditor

June 7, 2012

Honorable Mayor and
Members of the City Council
915 I Street - Fifth Floor, New City Hall
Sacramento, CA 95814-2604

Enclosed is the *City of Sacramento Utility Billing Audit* conducted on behalf of the Sacramento City Auditor's Office, by Macias Consulting Group, Inc. The objectives of this audit were to 1) evaluate the system of internal controls utilized in the Department's billing and collections function, 2) test the accuracy of utility bills, and 3) assess the City's ability to recover amounts owed.

The report finds that in general, the Department has an adequate internal control environment providing a consistent, accurate, and timely billing and payment posting operation. The report contains seven findings and makes 11 recommendations for improving the operations, controls, and management of the City's utility billing system. The written response by the Department to this report is found on page 28. I will present this audit at the June 12, 2012 *Audit Committee* meeting.

We would like to thank the Utilities Department staff, City Attorney's Office staff, and the City Manager's Office staff for their assistance and cooperation during this audit.

Should you have any questions, please contact me at 808-7270.

Respectfully submitted,



Jorge Oseguera
City Auditor



City of Sacramento Utility
Billing Audit
(Report # 12-03)

June 6, 2012



June 6, 2012

Mr. Jorge Oseguera
City Auditor
City of Sacramento
915 I Street
Sacramento, CA 95814

Dear Mr. Oseguera

Enclosed is our Final Report of the City of Sacramento Utilities Department Billing Processes Audit. Within the attached report, we provide our findings and offer strategic recommendations for operational improvements. This report summarizes information collected by Macias Consulting Group, Inc. between February 2012 and April 2012.

We would like to thank Department personnel, particularly the Business Services Manager, System Support Manager, Contact Center Program Manager, Billing Unit Program Specialist, and their respective supervisors and staffs for their assistance in conducting this project. Their collective interest, cooperation, and dedication greatly enhanced the results of this project.

Sincerely,



Macias Consulting Group, Inc.

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Executive Summary

Why the Examination was Conducted

The City of Sacramento – Office of the City Auditor (Auditor) contracted with Macias Consulting Group (MCG) to conduct a performance audit of City Utility Billing and Collection practices. Based on the results of a 2011-2012 Risk Assessment, the Auditor identified the Department of Utilities' (Department's) billing processes as a likely area for further review. The Department bills residential customers for seven types of city-provided water, sewer, storm drain, street sweeping, recycling, yard waste removal, and solid waste pickup services as well as for regional sanitation services. In addition, the Department bills commercial customers for similar services, although these customers have the option of using private haulers for their solid waste pickup.

The specific objectives of this review were to:

1. Evaluate internal controls,
2. Test the accuracy of utility service charge bills, and
3. Assess the City's ability to recover amounts billed.

Additionally, we identified and contacted five peer agencies, reviewed their billing practices, and identified any improvements or procedures that can be incorporated into Department practices in order to enhance overall effectiveness. Our performance audit focused on activities related to account setup, bill preparation, collections, reporting, and account cancellation to identify areas where performance excels as well as opportunities for improvement and efficiency.

What the Review Found

In general, the Department has an adequate internal control environment providing a consistent, accurate, and timely billing and payment posting operation. The Department has a high level of billing accuracy, except for storm drain billings. Of the 190 residential and commercial accounts and invoices that we examined, the results show high accuracy within all residential services and commercial water, sewer, and street sweeping services. In contrast, half of the 30 storm drain accounts showed a mismatch in square footage relative to County parcel records. Our analysis of additional data provided by the Department showed a net difference of 47.6 million square feet without Premise Notes documenting exceptions. This high error rate projects to a potential financial impact to the Department of \$737,000 annually.

- In addition, we identified two instances in our random sample of 30 where parcels sharing the same street address were only having one parcel billed for storm drainage. The Department's systems and processes did not flag the presence of a second parcel tied to the same address, resulting in those second parcels not being billed for services. While we could not determine the magnitude of the problem, it is possible that up to 1,800 of the 12,000 commercial accounts may be affected and further testing is necessary.

Our review of the City's ability to collect revenue showed opportunities to increase effectiveness. We determined that the Department has not been monitoring collections' performance, and had not been aware of available performance information. Consequently, the Department has not had any visibility of how code, policy, or other changes that might impact the current low collection rate of 9.4 percent on past due accounts. The Department, similar to other cities, has the capability to turn off service – an effective tool to increase collections – but the Department has not implemented this option because of public policy considerations by the City.

Our analysis of \$13.7 million in revenue that the Department determined that it could not capture (e.g. accounts written off between July 2007 and January 2012) showed a moderate correlation with home foreclosure rates and a high correlation with lien properties. Increases in foreclosures were generally followed by increases in account write-offs four months later. Over 80 percent of final write-offs, however, came from lien properties. These uncollectable liens have led to an average over \$2.5 million in lost revenue per year. If the Department were to reduce its write-off percentage to below 0.5 percent, this could result in additional revenue of 1.3 million dollars annually.

Although the Department's internal policies and processes are particularly well documented and provide strong guidance to staff, our review identified several areas that could provide the City with an opportunity to increase its overall effectiveness and efficiency. These areas include:

- The Account Clerk IIs in the Billing Services Unit often perform a level of research and troubleshooting tasks that is beyond the routine work specified in City Class Specifications. Consequently, the Department does not fully implement quality assurance activities necessary for billing and collections, which will allow more proactive approaches to preventing billing errors.
- The Department's systems can improve their general and application controls in the areas of Customer Information System (CIS) billing system super user monitoring and providing strong passwords for the water meter-related systems that impact billing. These controls can decrease the possibilities of unauthorized system changes or someone bypassing a weak password to gain inappropriate system access.

We provide 11 recommendations designed to increase billing effectiveness and revenue capture among past due accounts.

What the Review Recommends

We recommend that the Department Manager and the Billing Management team take the following eleven actions by the end of the calendar year:

1. Continue to review all variances and update account records to reflect actual square footage, or document reason for exception.
2. Review parcels without CIS accounts, determine which are at the same street address as an existing account and receiving City services, and set up accounts for those parcels.
3. Consider initiating discontinuance process for delinquent accounts.

4. Monitor collections performance and investigate policy changes to improve performance.
5. Increase assertiveness of billing and collection efforts immediately after a lien is canceled due to foreclosure, such as stronger-worded invoices and clear communication that the Department will soon assign the account to collections.
6. Determine critical leading (e.g., business process, account aging, lien rates, employee development) and lagging (e.g., revenue) performance indicators and incorporate into Balanced Scorecard measurement system. Use month-to-month trends to identify opportunities for operational improvement.
7. Monitor lien and foreclosure rates and anticipate revenue changes should significant changes in rates occur.
8. Develop schedules for all audit queries based on exception rates.
9. Investigate alternative Class Specifications for a subset of Account Clerk IIs that perform more research and account troubleshooting tasks.
10. Develop policies and implement procedures requiring periodic (e.g. monthly) reviews of CIS super user activities.
11. Develop and implement a formal administrative policy increasing the minimum password configuration requirements for applications that impact Department revenue.

Objectives

The objectives of this review were to:

- Evaluate the system of internal controls utilized in the Department's Billing & Collections function.
- Test the accuracy of utility bills.
- Assess the City's ability to recover amounts owed.

Scope

Billings and collections of the Department of Utilities executed during the period October 1, 2011 through March 31, 2012. For the analysis of foreclosures on department revenue, we covered the period July 1, 2007 through January 31, 2012.

Methodology

We first conducted a risk assessment to highlight areas of increased audit emphasis and fine tune our overall audit program. We performed this assessment by (1) reviewing risk documentation, (2) conducting interviews with key personnel involved in all aspects of the billing and collection processes, (3) and summarizing the results into a risk assessment data collection instrument for the five major functions in the billing unit:

1. Account set up
2. Bill preparation
3. Collections
4. Reporting
5. Account cancellation.

We then examined control activities, which are actions, supported by policies and procedures that, when carried out properly and in a timely manner, manage or reduce risk in the billings and collections process. As such, we tested key controls within utility billing operations to determine if any significant deficiencies or material weaknesses existed.

To assess the Department's ability to maintain appropriately qualified staffing, we reviewed the City Class Specifications (position descriptions) to determine the officially required roles and responsibilities, as well as the knowledge, skills, and abilities required for the position. We also reviewed the Department's written task assignments for these position classes. We then interviewed incumbents in these job classes to determine the extent that their self-reported roles and responsibilities, and required knowledge, skills, and abilities, matched the City Class Specifications. From this, we determined any gaps between the official City Class Specifications and the work that Department workers are actually performing.

To test the accuracy of utility bills, we developed five discrete random samples of accounts and premises. In addition, we developed two additional samples to test the accuracy of the lien and special assessment processes. In total, we tested 190 combinations of accounts and invoices.

We conducted a qualitative review on the Department's methods for ensuring the accuracy and reliability of the data contained in their database. Based on our review of the CIS Billing database, we found the data to be sufficiently reliable for purposes of our analysis. Our testing strategy stratified the billing universe into a series of individual samples aimed at testing specific transaction items, such as accuracy of billing activities, billing charges, and payments posted. We similarly tested two discrete random samples of commercial accounts for billing consistency and accuracy.

To assess the City's ability to recover amounts billed, we validated the effectiveness of the lien and special assessment processes. We stratified delinquent accounts into two discrete random samples aimed at testing the lien and special assessment process. Our test samples were 1) delinquent accounts, to validate the presence of liens, and 2) accounts showing special assessment adjustments, to validate the presence of direct levies on parcel property tax bills. We examined the selected transactions to verify the accuracy of lien information and the amount of the lien pay off adjustments using 2011-2012 property tax information.

In addition, we analyzed account write-offs and the correlation of account write-offs to published records of home foreclosures in the City of Sacramento for the period from July 2007 through January 2012. We offset the write-offs by four months, to account for the final billing cycle, and determined the statistical correlation between the two numbers.

We also analyzed account write-offs that occurred from July 2007 through 2011 and compared it to accounts with liens to determine the percentage of final write-offs that had property liens. These write-offs are due to a combination of 1) a lien being uncollectable (i.e., junior lien) in a foreclosure process and 2) the account holder not paying the full final bill after the property transfer.

We examined the performance measures used by the Department to monitor revenue capture effectiveness, including indicators such as liens, account aging, write-offs, and collection efficiency. Where performance measures were unavailable, such as for collection efficiency, we researched with the appropriate City staff (e.g., Department of Revenue) to determine how to obtain these measures.

Finally, we also conducted structured interviews with select "best practice" organizations to obtain information about their billing and collections procedures. As shown in Table 1.0, we selected five entities for comparison using the following criteria:

1. Entities serving similar population
2. Entities providing similar utility services; particularly water and sewer
3. Other Northern California utility districts.

Table 1.0: Peer Entities Selected to Compare Utility Billing Practices

Entity	Population Served	Utility Service Revenue (M\$)	Utility Customers
City of Sacramento	466,488	220	138,000
City of San Jose ¹	945,942	216	222,000
City of Fresno	494,665	190	130,000
East Bay Municipal Utility District	1,350,000	360	383,000
Alameda County Water District	328,325	61	81,000
City of Long Beach	462,257	63	90,000

We developed a data collection instrument focusing on the following areas:

1. Number of bills sent out per month, and types of utility services billed
2. Billing staff resources, both internal and subcontracted
3. Billing system(s) used
4. Key performance measures used for billing operation
5. Use of late payment fees, liens, shutoff, and other means to address delinquent accounts
6. Key internal controls
7. Recent changes that substantially increased revenue capture.

We researched publicly available information (e.g., annual reports) and then conducted telephone interviews with each entity to obtain any additional information needed. We then summarized the available information from each entity.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

A draft report was provided to the Office of the City Auditor and the Department of Utilities and comments were incorporated into this report as appropriate.

¹ Data for San Jose Water. Two other private water companies also provide water to City.

Principal Results

Finding 1: Preparation of Residential and Commercial Bills Are Highly Accurate, but Improvements are Needed to Ensure All Eligible Parcels are Properly Billed for Storm Drainage

The Department's Customer Information System (CIS) contains customer and premise information and manages all of the billing and payment posting processes. The CIS system organizes information in the following way, which we leveraged for our testing:

- **Person** – Name of customer, such as person or business, responsible for services
- **Account** – Account number, referencing specific customer
- **Service Agreement (SA)** – Contract between customer and City for service (e.g., water, sewer, storm drainage).
- **Premise** – Physical location where service is provided (e.g., house, business address)
- **Service Point** – Actual point of service (e.g. water meter).

The Department generally structures utility rates and Service Agreements by residential (e.g., single family homes, condominiums², mobile homes, multiple-family dwellings) and commercial (e.g., businesses, institutions, government facilities, schools, parks) services.

Residential customers are required to maintain city-provided water, sewer, storm drain, street sweeping, recycling, yard waste removal, and solid waste pickup services as well as regional sanitation services. For water, residential customers are billed on a 1) flat rate, based on the number of rooms in the dwelling, or 2) metered rate, based on the size of the meter and the number of cubic feet of water used. Residential storm drain service rates are also based on the number of rooms.

Commercial customers have the option of using private haulers for recycling, yard waste removal, and solid waste pickup services³. Almost all commercial customers are billed for water at metered rates. In addition, commercial customers are billed for sewer, street sweeping, storm drain, and regional sanitation services.

Residential Utility Billings Have a High Accuracy Rate

Our examination did not identify errors in residential bill preparation. As shown in Table 2.0, the Department has a 100 percent accuracy rate. In addition, we did not identify significant deficiencies or material weaknesses in the Department's internal controls for account set up and bill preparation. In comparison to our experience examining utility operations in other cities, the Department should be commended for its high level of performance.

² With a separate Service Agreement (e.g., water) for each unit.

³ In March 2012, the Sacramento City Council passed Resolution No. 2012-074, discontinuing solid waste and recyclables collection services to commercial properties by October 1, 2012.

Table 2.0: Residential Billing Accuracy Levels⁴

Number of Accounts Examined	Area Examined	Accuracy Rate
20 residential customer accounts (all residential) 20 premises located in the city. (17 residential, 3 commercial)	Accounts were billed and payments posted over last six billing cycles	100% accuracy.
25 residential accounts	Presence of all mandatory services on account and most recent invoice: <ul style="list-style-type: none"> • Water • Sewer • Lawn & Garden • Street Sweeping • Recycling • Garbage • Storm Drainage • Regional Sanitation. 	100% accuracy.
25 residential accounts	Charges for all services were in accordance with City Ordinance rates.	100% accuracy.

Commercial Utility Billings Have a High Accuracy Rate, Except for Storm Drain Billings

Our examination did not identify errors in most commercial bill preparation. As shown in Table 3.0, the Department has a 100 percent billing accuracy rate among the transactions that we examined for water, sewage, and regional sanitation services. For storm drainage billing, the department has a lower billing accuracy rate of 50 percent among the transactions that we examined.

The cause of the lower performance level stems from inaccurate information used in the account set up process for storm drainage services. For half of the 30 transactions that we examined, information on the account showing the square footage of the parcel did not match County records leading to some underbilling and some overbilling. Specifically, five accounts were overbilled and 10 accounts were underbilled.

⁴ A key billing driver for residential flat rate service, as well as for all residential sewer and storm drainage service, is the number of rooms in the residential dwelling. The Department will base room count on final permit records received from the County, as well as field verifications. Unlike for lot square footage (a key driver for commercial billing), we could not determine a valid source document against which we could compare room counts in the CIS billing system. Consequently, we were unable to test the controls for assuring accurate room count.

Table 3.0: Commercial Account Billing Accuracy Levels

Number of Accounts Examined	Area Examined	Accuracy Rate
20 commercial accounts	Presence of all mandatory services on account and most recent invoice: <ul style="list-style-type: none"> • Water • Sewer • Storm Drainage • Regional Sanitation. 	100% accuracy.
20 commercial accounts	Most recent month's charges for all mandatory services were in accordance with City Ordinance rates.	100% accuracy.
30 commercial accounts	Parcel square footage (used for storm drain billing) record in CIS matches County Assessor records. ⁵	50% accuracy. <ul style="list-style-type: none"> • 15 parcels did not have matching square footage records • 10 parcels had higher square footage in CIS than in County records • 5 parcels had lower square footage in CIS than in County records • Net square footage in CIS records was 16,800 square feet, or one percent, less than County records • In addition, 2 accounts had an additional parcel located at the same street address and receiving storm drain services, but not tied to the account.

The results of our examination prompted us to further analyze the 12,000 storm drainage accounts established by the Department. The Department provided additional information that showed another 2,507 accounts with square footage information on the parcel that did not match County records. Any exception for the discrepancies should have, at a minimum, notes explaining the reasons for the difference. These notes are generally recorded in the "Premise Notes" field of the Department's utility billing system, but none of the fields for the accounts in question contained any information. We estimated a potential revenue loss of up to \$737,624 in storm draining billing, as shown in Table 4.0 below. Department officials reported they were aware of the issue and explained that the accounts were likely set up in the prior billing system before the November 2005 implementation of CIS. Department officials explained they have been aware of and are addressing the issue of commercial property square footage variances. Until recently, the Department has had limited resources to address

⁵ The City assesses storm drain rates based on gross parcel square footage. Exceptions should be documented in account Premise Notes, but this field was blank for these accounts.

this issue, but staff have made progress in reconciling the square footage information between Department and County records.

Table 4.0: Number of Parcels⁶ with Square Footage Differences between Department and County Records and Potential Financial Impact⁷

Billing Variance	Parcel Count	Total Premise Square Feet Impacted	Potential Annual Revenue Impact
Underbilled	1,259	(60,082,413)	(\$930,076)
Overbilled	1,248	12,432,285	\$192,452
Grand Total	2,507	(47,650,128)	(\$737,624)

Finally, we examined whether the Department is providing services without establishing the required account. All parcels receiving City services should have accounts and be billed. Our examination of sampled transactions identified two commercial parcels receiving storm drain services that had no customer account in the CIS system although the department had established accounts for the other utility services on a separate parcel at the same street address. In each case, the Department had not checked to ensure all contiguous Assessor's Parcel Numbers (APNs) at the same address were included in an account setup or change.

Further analysis of information provided by the Department found 14,610 parcels (excluding sub-parcels) that do not have any utility accounts in the CIS system. Additional review, however, is required to fully characterize which, if any, accounts are receiving City services. While we were unable to determine which parcels were at existing addresses receiving City services, our examination indicates that the Department could be unnecessarily losing revenue on some of these parcels, particularly for commercial storm drain services.

Recommendation	Anticipated Impact	Difficulty to Implement/ Barriers	Anticipated Resources	Schedule
1. The Billing Services Unit should review all storm drain square footage variances and update account records to reflect actual square footage, or document reason for exception.	Medium	The Department should prioritize its research on accounts with most square footage difference. This would yield quick early results.	Researching these accounts would likely require the work of a Customer Service Specialist with considerable CIS account management experience.	January 1, 2013

⁶ Excludes parks, cemeteries, and sub-parcels.

⁷ Based on 2011-2012 charges of \$0.001928 per square foot of gross surface area.

Recommendation	Anticipated Impact	Difficulty to Implement/ Barriers	Anticipated Resources	Schedule
2. The Billing Services Unit should review parcels without CIS accounts, determine which are at an existing account address and receive City services, and set up accounts for those parcels.	Medium to High	The Billing Services Unit would have to work with the County Assessor’s reporting system to identify these parcels.	Researching these accounts would likely require the work of a Customer Service Specialist with considerable CIS account management experience, as well as Administrative Analyst resources to define and test the necessary County and CIS reports.	October 1, 2012

Finding 2: Liens and Special Assessments are an Effective Tool for Collecting on Delinquent Accounts, but Result in Higher Write-Offs than Necessary.

The Department places liens with the County Clerk-Recorder on accounts that are 75 days past due, which is 95 days after the original bill date. The lien is a legal claim against the property which is used to secure the unpaid balance and which must be paid when the property is sold. Each July, the Department transfers unpaid liens to a Special Assessment⁸ on the account owner’s property tax bill. A Special Assessment is a direct levy, shown as “SACTO CITY DELINQUENT UTILITIES”, on the parcel’s annual property tax bill. The County pays the Department for Special Assessments at the time of initial assessment, and the Department credits the Special Assessment to the delinquent account.

Our examination showed no exceptions in placing liens on delinquent accounts and transferring liens to property tax levies. As shown in Table 5.0, below, the Department has a 100 percent accuracy rate among the 50 transactions included in our review.

Table 5.0: Lien and Special Assessment Accuracy

Number of Transactions Examined	Area tested	Accuracy Rate
20 delinquent residential accounts with balances over \$1,000	CIS system records acknowledged the presence of lien, the lien recording date, and lien on County records had been verified by Department staff.	100% accuracy.
	The County Clerk-Recorder’s Electronic Recorder Online System Index (e-ROSI) showed the recording of the lien on the date in the CIS system record.	100% accuracy.

⁸ The Department adds a small (less than \$1.00) processing fee.

Number of Transactions Examined	Area tested	Accuracy Rate
30 residential accounts showing a lien payoff adjustment in July 2011 in the CIS billing system	Amount of lien payoff adjustment (plus County payoff fee) matched County Tax Collector's "Delinquent Utilities" direct levy on parcel's 2011-2012 property tax bill.	100% accuracy.

The Department does not have data available on the total percentage of liened properties that are eventually paid off. However, the Department has a greater likelihood of capturing revenue on delinquent accounts when liens are placed on the Special Assessments tax roll. When this occurs, the County transfers the full Special Assessment amount upon payment to the Department. Even when a property forecloses after a Special Assessment is levied against the account holder, the Department still receives the full amount of the Special Assessment. Table 6.0 shows the number of parcels and value of liens transferred to Special Assessments.

Table 6.0: Number of Parcels and Value of Liens Transferred to Special Assessments; Fiscal Years 2008-2011

Fiscal Year	2008	2009	2010	2011	Four Year Total
Number of Parcels Levied With Special Assessments	6,819	8,338	9,331	9,600	34,088
Value of Liens Transferred to Special Assessments (Million \$)	8.4	10.0	11.4	11.0	40.8

In contrast, if a lender forecloses on the property prior to the lien being transferred to a Special Assessment, the lien is usually uncollectable. The primary mortgage holder on the property has priority in receiving any value obtained from the foreclosure process. The Department's lien is considered a "junior lien", or a lien that is subordinate or subsequent to the claims of the primary mortgage. When a liened property forecloses, the Department sends a closing bill to the former owner, per its standard billing process. If the former owner does not pay the bill after 95 days, the Department classifies the account as a "Final Write-Off" and refers the account to collections. Final Write-Offs are amounts owed deemed to be uncollectable by the Department⁹, and where the account holder has not sought financial protection through bankruptcy.

We reviewed the correlation between lien releases and Final Write-Offs and determined that over 80 percent of account Final Write-Offs are on properties that had liens issued that were not transferred to a Special Assessment prior to property foreclosure. This represents 81 percent or \$10.1 million of \$12.5 million in final write-offs¹⁰ over the same time period, as illustrated in Table 7.0 below. Although the Department averages over \$2.5 million annually in Final Write-Offs resulting in a very low percentage of total utility revenue, using alternatives to liens still presents an opportunity to improve collections.

⁹ And referred to a collection agency.

¹⁰ Excluding bankruptcy write-offs.

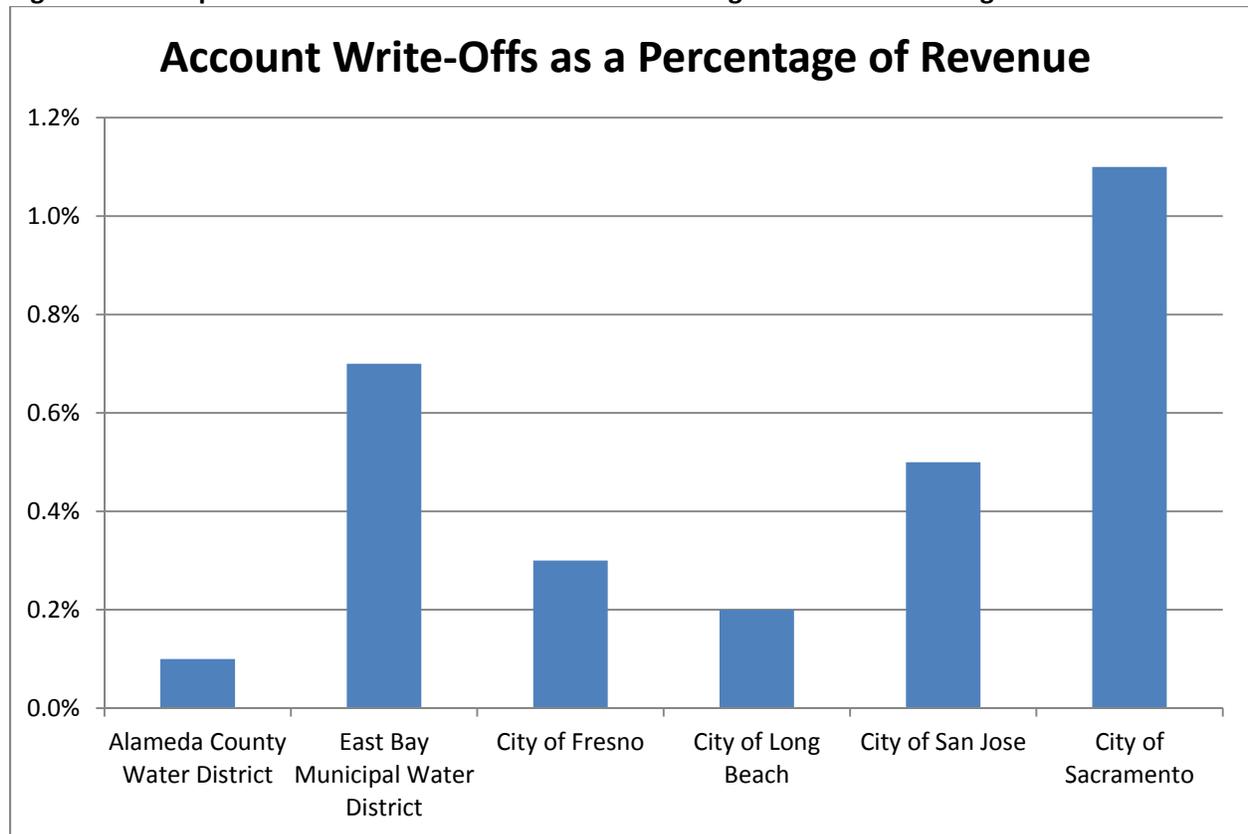
Table 7.0
Final Write-Offs and Final Write-Offs on Liened Properties Comparison with Revenue: 2008-2011

Fiscal Year	2008	2009	2010	2011	Four Year Total
Total Revenue for Services (Million \$)	203	203	215	229	850
Final Write-Offs (Million \$)	1.74	4.40	3.10	3.24	12.5
Write-Offs on Liened Properties (Million \$)	1.38	3.76	2.47	2.51	10.1

Peer Cities Have Lower Write-Off Levels

Among all of the five peer agencies that we surveyed -- Alameda County Water District, East Bay Municipal Utility District, City of Fresno, City of Long Beach, and City of San Jose – all had lower write-off levels, as shown in Figure 1.0. These agencies terminate service after three to four months of delinquency, and also use liens if the accountholder continues not to pay. Data was not available to show the specific revenue impact. The peer agencies reported that discontinuing services on delinquent accounts was their most effective method for preventing write offs. These entities charge a fee for the shutoff, and generally use meter readings to validate that the account owner did not bypass the shutoff process.

Figure 1.0: Comparison of Account Write-Offs as a Percentage of Revenue Among Peer Entities



In the absence of discontinuing service, the Department places property liens on delinquent accounts. Each July, it transfers the delinquent amount to a special property tax assessment. Department management has perceived the lien and special assessment process to be more effective at collecting delinquent accounts than discontinuance of service. It is important to note that the American Water Works Association (AWWA) has, over the last 34 years, expressed concerns over discontinuing service because utilities are considered a necessity, but in its most recent policy statement¹¹, the AWWA stated that discontinuance of water service for nonpayment is considered a final phase of a collection procedure and should be instituted with sufficient notification when all other reasonable alternatives have been exhausted.

Continuing to lien, and not turn off, delinquent accounts has had a considerable revenue impact on the Department. Should the Department be able to decrease write-offs in line with the peer comparison average of 0.5 percent, it could realize an additional \$1.3 million per year in revenue capture – not considering other factors, such as regional economics, that impact the write-off percentage in a given area. The goal of the Department, however, should be to have write-off rates more in line with the entities that we benchmarked. We provide additional information on the Department’s collection activities later in this report.

Recommendation	Anticipated Impact	Difficulty to Implement/ Barriers	Anticipated Resources	Schedule
3. The Department should consider initiating a discontinuance process for delinquent accounts.	Medium to High	Customers who perceive a benefit in intentionally letting their delinquent accounts roll into Special Assessments may oppose this change. The Department will have to determine an appropriate fee for this service, based on the work required.	Planning would require development of customer communication messages. Implementation would require field service resources for terminating service and monitoring service to assure it stays shut off.	January 1, 2013

Finding 3: The Department does not Monitor Collections’ Performance

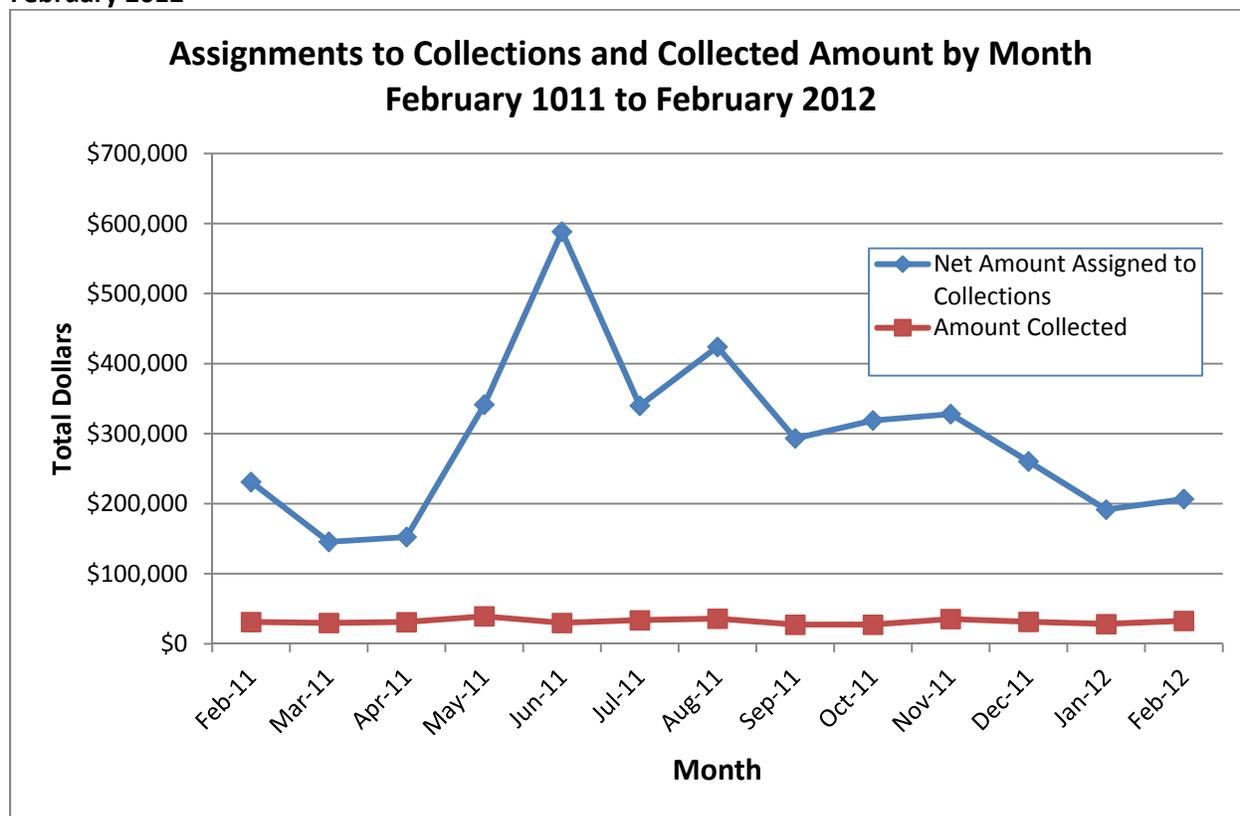
A critical component of the utility billing process is the ability to track and monitor outstanding amounts owed to the Department. When accounts become past due, there are methods commonly used by other entities, including the Department to collect on any potential bad debt. These methods include sending delinquent payment notices, placing accounts on monthly billing versus bi-monthly billing, and sending delinquent accounts to collection agencies to pursue payment.

¹¹ *Discontinuance of Water Service for Nonpayment*, Statement of Policy on Public Water Supply Matters. Approved by the AWWA Board of Directors, June 8, 2008.

The City of Sacramento Department of Revenue has outsourced collection activity to a third party, which handles delinquent accounts for the Department of Utilities. The third party contract also covers collections on write-offs from the Department of Utilities. The Department of Utilities has neither accessed nor utilized collection performance reports available from the collections vendor. Prior to our audit, Department management was unaware of the availability of these collection reports. Without collection reports, Department management cannot fully monitor agency collection activities. In addition, when City codes¹², policies, or procedures change, the Department has had no information regarding any impact on collection performance.

Industry collection success rates vary from 65 to 90 percent depending on the type of bill issued for payment. In our experience among governmental utilities, collection rates among different bill types have ranged from as low as 40 percent to as high as 99 percent. In Figure 2.0 below we show Utilities' collection performance, as reported by the City's collections vendor, from February 2011 through February 2012. From the start of the vendor's contract with the City in 1995 through February 2012, the Department had referred to the vendor a net amount of \$19.1 million¹³ in uncollectable accounts. The vendor had collected \$1.8 million, or 9.4 percent – below industry averages for utility billings.

Figure 2.0: Assignment to Collections and Amount Collected Per Month; February 2011 through February 2012



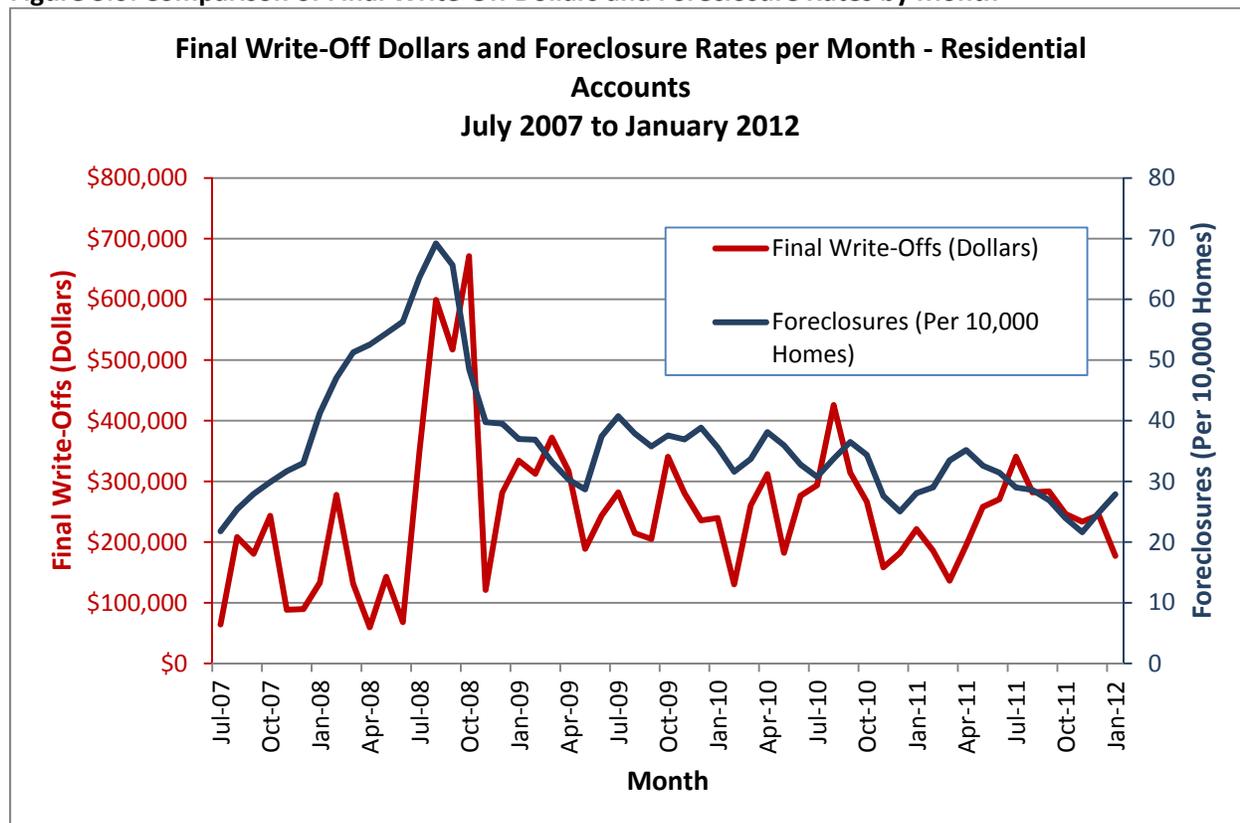
¹² For example, Ordinance 2011-051 (December 6, 2011), that included changes to billing delinquency timelines, late payment penalty amounts, and lien provisions.

¹³ An additional \$1.5 million in Final Write-Offs sent to the collections vendor have been cancelled by the Department. These cancellations were either due to bankruptcies or were paid directly to the Department.

It is important to note that some delinquent customers remit their late payment directly to the Department, even though the delinquent balance has been assigned to the collections vendor. These payments would not necessarily be reflected in the collection rate. City staff expressed the concern that the Sacramento region has had a high incidence of home foreclosures in recent years. As foreclosures have increased, the Department’s ability to collect on past due accounts has decreased, and account write-offs have also increased.¹⁴

In Figure 3.0 below, we show the correlation between home foreclosure rates¹⁵ in the City of Sacramento and utility account write-offs. Adjusting the Final Write-Offs to four months (to account for the normal timeline for writing off accounts not paid after a sale) results in moderate statistical correlation between foreclosures and write-offs.

Figure 3.0: Comparison of Final Write-Off Dollars and Foreclosure Rates by Month



The Department has had very low collection efficiency on account write-offs referred to its collections vendor, and has neither proactively monitored efficiency nor initiated any policy changes to improve collection efficiency. Increasing collection efficiency to industry averages can have a considerable

¹⁴ Department staff indicated that they have not had any write-offs on lien properties due to short sales. In short sales, one or more mortgage holders have absorbed the loss and the lienholders, including the Department, receive payment for the delinquent amount owed.

¹⁵ Source: Zillow, Inc.

revenue capture impact on the Department. Based the amount sent to collections in 2011¹⁶, we estimated the impact of each ten percentage point increase should the Department increase its collection effectiveness on revenue capture, as shown in Table 8.0 below.

Table 8.0: Effect of Increasing Collection Efficiency on Department Revenue Capture

Percentage Point Increase in Collection Efficiency	Impact on Department Annual Revenue Capture
10	\$290,000
20	\$579,000
30	\$869,000
40	\$1,159,000
50	\$1,449,000

Should the Department increase its collection of delinquent accounts by 10 percentage points, an additional \$290,000 could be captured each year.

Recommendation	Anticipated Impact	Difficulty to Implement/ Barriers	Anticipated Resources	Schedule
4. The Billing Services Unit should monitor collections performance and investigate policy changes to improve performance.	Low to Medium	Collections reports are currently in Adobe format and difficult to convert into analytical tools (e.g., Excel). The City’s contract with FCN may limit what policy changes can impact collection effectiveness.	Analyzing collections performance would require an Analyst or Specialist with solid data analysis expertise. From this analysis, Billing Services Manager and key staff resources would be required to determine policy changes to improve collections.	October 1, 2012
5. The Department should increase assertiveness of billing and collection efforts immediately after a lien is canceled due to foreclosure, such as stronger-	Low to Medium	The Department would have to work with the bill print vendor to construct stronger worded and more frequent final bills. The vendor could pilot different billing messages on a sample of delinquent customers. Current Department position classifications do not have	Implementation would initially require management resources to work with the bill print vendor to increase assertiveness wording and frequency of final bills.	January 1, 2013

¹⁶ Should the amount sent to collections decrease as a result of terminating service on delinquent accounts, the impact on Department annual revenue capture of percentage point increases in collection efficiency would also decrease.

Recommendation	Anticipated Impact	Difficulty to Implement/ Barriers	Anticipated Resources	Schedule
worded invoices and clear communication that the Department will soon assign the account to collections.		any collections responsibilities.		

Finding 4: Additional Performance Reporting Can Provide a Useful Tool to Monitor Billing Operations

Effective organization performance measurement should review month-to-month trends for changes that require operational adjustments. High-performance organizations also balance their performance reporting between financial and non-financial measures, as non-financial measures are often leading indicators of financial performance. Monitoring monthly trends in key performance indicators allows Department staff to quickly determine necessary changes or shift resources in order to meet objectives.

The Department monitors some measures (e.g., billing accuracy, call center performance) and tracks receivables, write-offs, and revenue on a monthly basis. Given that the Department is a mature organization with generally very high billing accuracy rates, the Department is ready to administer more sophisticated performance-based management frameworks.

One tool that is commonly used among high performing organizations is the Balanced Scorecard approach¹⁷. The Balanced Scorecard examines performance in four areas:

- **Financial.** The most frequently used performance indicator, these include measures of revenue and those directly impacting revenue. Examples for the Department are monthly revenue, account write-offs, and outstanding liens.
- **Internal business process.** This perspective looks at processes and innovation, measuring performance in terms of maximizing effectiveness of current processes and following indicators for future productivity. Department examples are percentage achievement of desired service levels and backlog of exception processing tasks.
- **Learning and growth.** This perspective measures the effectiveness of management in terms of employee satisfaction and retention, employee skills and competencies, and tools and information provided employees to make decisions. Department examples are employee proficiency levels in billing-related systems and account troubleshooting, as well as training in customer service skills.
- **Customer analysis.** This perspective looks at customer satisfaction. Department examples are the existing call center response times and responses to customer surveys.

¹⁷ Robert S. Kaplan and Robert P. Norton, *The Balanced Scorecard: Translating Strategy Into Action*, Harvard Business School Press, 1996

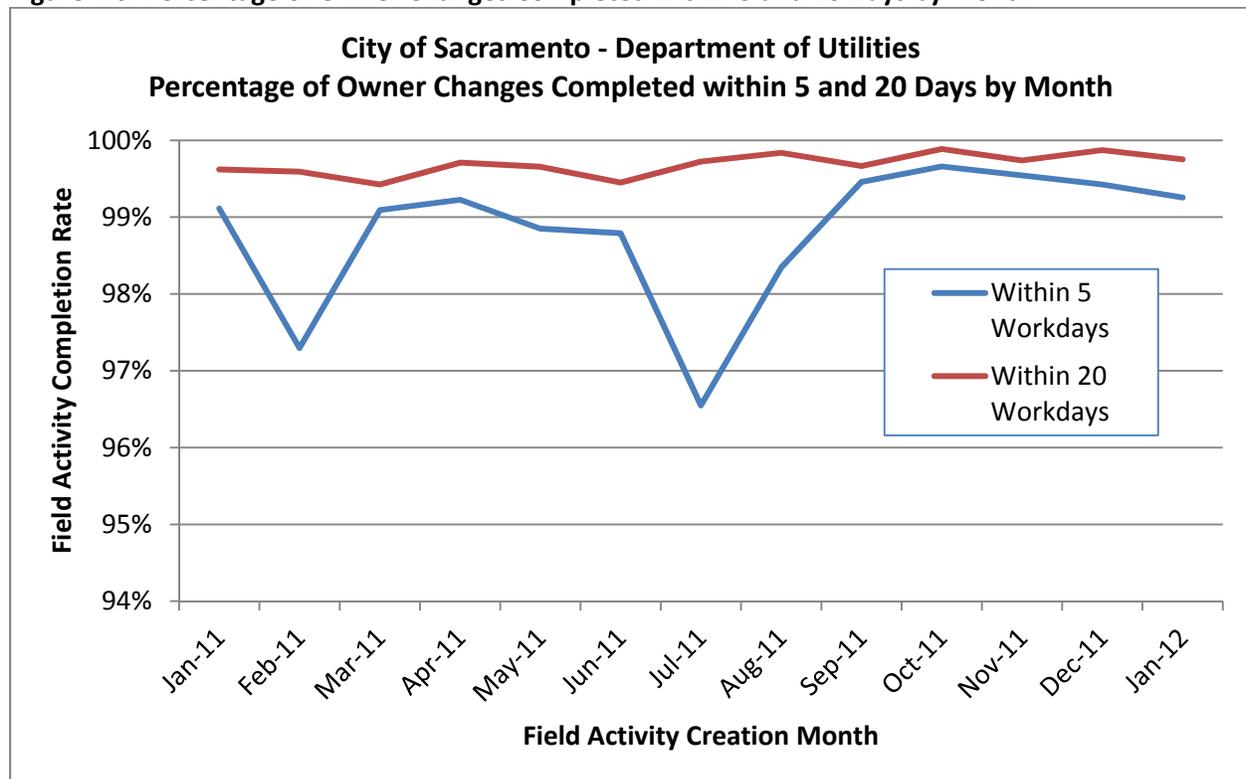
Unlike traditional performance measurement systems, which rely solely on financial measures, the Balanced Scorecard begins with an organization’s vision and strategy. The organization then translates vision and strategy into performance measures, by breaking a broad vision into strategies, tactical activities, and metrics.

To some extent, the Department is implementing some principles of a Balanced Score Card approach. The Department currently tracks and maintains performance measures that addresses all four components of the performance based management model by monitoring revenue and account write-offs, performing an annual review of outstanding liens as part of the Special Assessment process, monitoring task backlog relative to service levels, monitoring call center response times, and to some extent checks on staff learning and growth.

The Department can benefit from increasing the effectiveness of its efforts by performing monthly reporting and monitoring of service level completion, routinely tracking staff learning and development, and preparing trend analysis on call center information to identify potential warning signs.

The Department could benefit from tracking month-to-month trends on other performance measures that align with its business strategy, such as changes in the overall value of liens on accounts, changes to the amount of paid liens, percentage achievement of desired service levels for processing owner changes or misapplied payments, number of specific billing-related (e.g., research and troubleshooting) and training and development skills mastered. As an example of performance monitoring, Figure 4.0 below shows month-to-month trends for processing owner changes – one of the Department’s key service level objectives.

Figure 4.0: Percentage of Owner Changes Completed within 5 and 20 Days by Month



Historically, the Department has tracked comprehensive performance measures prior to 2008 and developed performance metrics to measure strategic planning goals in 2009. A dedicated position was used for these activities prior to its elimination in 2009. Subsequently, the Department has not had a centralized means to report on and distribute information on billing and collections performance.

Recommendation	Anticipated Impact	Difficulty to Implement/ Barriers	Anticipated Resources	Schedule
<p>6. The Department should conduct a strategic planning session to determine critical leading (e.g., business process, account aging, lien rates, employee development) and lagging (e.g., revenue) performance indicators and incorporate them into a monthly Balanced Scorecard measurement system. Use month-to-month trends to identify opportunities for operational improvement.</p>	<p>Medium</p>	<p>While a lot of indicators may seem good to measure, the Department should determine a small and manageable number of indicators that have a high prediction of future performance.</p>	<p>Conducting a series of sessions to identify and prioritize these measures would require Department Management, Supervisors, and Specialists, as well as an individual experienced in group facilitation.</p>	<p>January 1, 2013</p>
<p>7. The Department should monitor lien and foreclosure rates and anticipate revenue changes should significant changes in rates occur.</p>	<p>Low to Medium</p>	<p>The current CIS system does not provide information on total value of outstanding liens. Reports would have to be developed to show data such as amount past due over 75 days on accounts with presence of a lien.</p>	<p>Implementation would require resources to develop reports showing monthly trends.</p>	<p>October 1, 2012</p>

Finding 5: More Systematic Use of Audit Queries Would be Beneficial

Audit queries are designed to pull specific information about customer accounts that allow for detecting problems in accounts. The queries can identify account set up errors, or other issues related to the receipt and posting of payments that, when detected, require corrective action by staff. The Department of Utilities’ CIS system is capable of producing many types of queries, which are used as key internal control elements. Detective queries are a key internal control element and should be regularly scheduled. They serve as early warning signs of potential issues.

We reviewed the 148 unique queries used by the Department and while some of these queries are required to be run periodically, the vast majority – about 70 percent – are run on an ad hoc basis as assigned by supervisors. Several ad hoc queries are potentially relevant to our findings, including queries for:

- Incomplete or incorrect (999 or 000) Assessor’s Parcel Numbers (APNs),
- APNs without storm drain service points,
- Pending and actual activities by date (e.g., owner changes – basis for performance metrics),
- Delinquent (past service level) owner changes.

The Department presently has the skills to create custom queries, as shown in its creation of custom queries for our audit. For example, the Department prepared custom audit reports at our request that showed lien releases and account adjustments. The Department can leverage this ability to more rapidly query additional information that may assist in many of its account and bill-related research tasks.

Prior to February 2012, the Billing Services Unit has not had adequate specialized resources to consistently perform audits and run queries. In February, the Unit filled two Customer Service Specialist positions. Once fully trained, these individuals will be an additional audit resource. Given that the CIS system lends itself to reliance on many detective controls, the consistent application of controls is essential for sustaining improved operations, such as routinely identifying properties receiving City services but not being billed.

Recommendation	Anticipated Impact	Difficulty to Implement/Barriers	Anticipated Resources	Schedule
8. The Billing Services Unit should develop schedules for all audit queries based on exception rates.	Medium	Will take time to implement as the Department does not consistently collect data on query exception rates. Once exception rates are determined and monitored, all queries can be scheduled.	Each time a query is run, billing staff will need to tally exception rates and the base number of accounts or invoices. From these, management can develop a matrix of suggested query frequency.	October 1, 2012

Finding 6: Most Billing Services Job Descriptions Align with Responsibilities of Position Incumbents

Highly effective organizations have employees with sufficient skills and abilities that align with their roles and responsibilities. We compared the job responsibilities actually performed by Account Clerk IIs, Customer Service Representatives, and Customer Service Specialists in the Billing Services Unit and the Call Center Unit to the City position descriptions for these classifications.

Of the five positions we examined, four actually performed their roles and responsibilities as described in their position description, as shown in Table 9.0. One of the three classifications – the Account Clerk II – has greater actual responsibilities than those in their position description, as shown below.

Table 9.0: Employee Job Match of Billing-Related Job Titles

Job Title	Organization	Number of Positions ¹⁸	Employee Job Match
Customer Service Representative	Call Center	11	Yes
Customer Service Specialist	Call Center	4	Yes
Account Clerk II	Billing Unit	4	No
Customer Service Representative	Billing Unit	6	Yes
Customer Service Specialist	Billing Unit	3	Yes

City Class Specifications for Account Clerk IIs specify more routine payment posting and reconciliation tasks, as shown in Table 10.0, below. The actual responsibilities performed by the Account Clerk II include a significant amount of research and troubleshooting of billing issues, such as payment discrepancies, posting errors of batch transactions, and account set-up and cancellation problems. The level of account and invoice research and investigation is beyond the relatively routine nature of the Account Clerk II’s Class Specification. Department staff explained that the City added two additional Account Clerk IIs about six years ago, when the City reclassified Utility Customer Service Technicians to Customer Service Representatives. The Department also commented that generally, or in the majority of instances, tasks follow documented procedures.

Table 10.0: Comparison of Account Clerk II Position Description with Actual Responsibilities.

Account Clerk II Position Description	Responsibilities Performed Outside the Account Clerk II Position Description	Department Provided Background information on the Identified Gap
<ul style="list-style-type: none"> Participate in the preparation of payroll, accounts payable and accounts receivable as well as control and account verification of a centralized accounting system. Maintain various ledgers, registers and journals according to established account classifications. May audit invoices against Purchase orders; research discrepancies; approve for payment and post to the proper account, keeping a running balance of encumbrances to the funds in each of the accounts. May audit various claims for payment including those for travel and Pacific Telephone and SMUD invoices; prepare for check writing and input to data processing. Perform accounting clerical work involved in the administration of the 1915 Public Improvement Assessments and the 1911 Bond Act Program. Initiate accounting transfers. Reconcile general ledger accounts with various 	<ul style="list-style-type: none"> Research and correct misapplied payments Research and Process Payment Upload Exceptions Process escalated Field Activities (account-related activities) in CIS 	<ul style="list-style-type: none"> The position Description lists “Initiate Accounting Transfers”, in which a misapplied payment is a transfer of a payment from one utility account to another. In majority of instances, the payment is sitting in a suspense account or the customer has identified the Check # and \$ amount, which staff can query on a PAYMENT UPLOAD in CIS. Payments that error out are from generally from Home Banking, in which a report pulled is pulled and a reference # that was next to the payment error is located in the report, in which the customer’s name is located and then identified in CIS. Therefore, research is minimal. Escalated field activities are no different from general bill adjustment field activities.

¹⁸ Includes positions vacant as of February 21, 2012

<p>registers.</p> <ul style="list-style-type: none"> • Perform various routine clerical duties such as typing and filing. • May audit Personnel Action Requests and submit to update the City's employee master file; prepare payroll from time cards submitted. • Respond to requests for information from outside agencies regarding employees' status and wages. • Research and answer employee and department questions regarding employee salaries and fringe benefits, the status of accounts and payments, the proper coding of transactions and other matters. • Prepare a variety of financial statements and costs and statistical reports. • Interpret computer reports. • Other related duties may also be performed; not all duties listed are necessarily performed by each individual holding this classification 	<p>system</p> <ul style="list-style-type: none"> • Update liens after bankruptcies • Research and correct: <ul style="list-style-type: none"> ○ Bill Segment Errors (e.g., meter read problems) ○ Batch Errors (e.g., account not billed) ○ Credit card payment problems • Research property owners in County systems 	<ul style="list-style-type: none"> • This is in a step by step procedure after processing a bill adjustment, in which a single button is selected to release the lien if less than 3-months of charges are owing, or leave in place if greater than 3 months of charges. • This would be considered a misapplied payment or charge back. Charge backs are notices from the bank requesting cancelling of the unauthorized payment. This does not require any research and a step by step procedure to cancel the payment in CIS. • This is a simple look-up in the County database, where an address or APN is entered and the Owner History is clicked on to see the current owner via a lookup database. This is a quick look up and not considered research. The position Description lists: Interpret computer reports.
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The gap in research and troubleshooting skill sets and job role impacts the quality assurance activities necessary for billing and collections – activities which will allow proactive approaches to preventing billing errors before they occur. The intent of job responsibilities and associated qualifications allows for better matching of an individual’s skill set to actual work activities. If actual responsibilities require more qualifications than on the position description, a “qualified” candidate may not be successful.

This responsibility gap could also have a large impact on the effectiveness of Billing Services’ operations as the City transitions to a leaner workforce. The probability that individuals in this classification be transferred from other City departments into Billing Services and not have the necessary research skills could likely increase.

Recommendation	Anticipated Impact	Difficulty to Implement/Barriers	Anticipated Resources	Schedule
<p>9. The Billing Services Manager should investigate alternative Class Specifications for a subset of Account Clerk IIs that perform more research and account troubleshooting tasks.</p>	<p>Medium to High</p>	<p>While the Department has thorough documentation regarding specific tasks performed by these functions, no current comparable City Class Specifications for the research and troubleshooting roles exist.</p>	<p>An evaluation would require resources from the City’s Human Resources Employment and Classification Unit to assist with mapping required knowledge, skills, and abilities into appropriate classifications. In addition, Billing Unit staff time would be required for these mapping sessions.</p>	<p>January 1, 2013</p>

Finding 7: General and Application Controls on IT Systems Could be Improved

General computer controls over the access to programs and data require that network and application security controls be implemented to assure administrative, master and super user activities are properly authorized and to safeguard information technology resources and data. While the Department has a thorough process for evaluating and approving system changes, the Department does not monitor Super User Activity on the CIS billing system.

Master and Super Users have application or database access beyond that of a normal user. Typically they have privileged access to configure systems, update data, and conduct transactions at a broader level of authority than general users. The activities that can be performed by these individuals are typically outside the normal application workflow. The Department has seven individuals with a CIS Administrator (analogous to Super User) role and one individual with a PeopleSoft Administrator (analogous to Administrative User) role. The Department does not follow the best practice of monitoring Super User activity. Without having the necessary controls to review Super User access and activity reports, the Department faces a substantial risk of potential fraud and abuse.

In addition, general computer controls require that access to the IT network and applications be properly controlled. These controls include policies requiring the use of strong passwords. Strong passwords protect the timeliness and accuracy of the meter reading inputs. If strong passwords are not used, the chance of someone hacking into an application increases considerably. The meter reading (MOSAIC and Routestar) applications have weak password standards – only six characters without a formal complexity requirement. These are the default password standards for the application. As a result, the Department has no assurance that users are using strong passwords.

Recommendation	Anticipated Impact	Difficulty to Implement/ Barriers	Anticipated Resources	Schedule
<p>10. The Director of Business Services should work with the IT Manager to develop policies and implement procedures requiring periodic (e.g. monthly) reviews of CIS super user activities. The review should be performed by a position outside of the chain of command of these users with high level access and should be pursuant to guidelines and criteria that would aid in identifying the nature of this activity.</p>	<p>Low to Medium</p>	<p>The Department would need to identify the necessary resource and expertise to review these super user activities.</p>	<p>Developing a policy and procedures would require IT Manager resources and assistance and support from the Director of Business Services. In addition, IT-knowledgeable resources would be required for the monthly review.</p>	<p>October 1, 2012</p>
<p>11. The Information Technology Manager and the Department Manager should develop and implement a formal administrative policy increasing the minimum password configuration requirements to eight characters with a complexity requirement for applications that impact Department revenue.</p>	<p>Low to Medium</p>	<p>Increasing the password complexity requirements for the MOSAIC and Routestar applications may require vendor assistance.</p>	<p>Developing a policy and procedures would require IT Manager resources and assistance and support from the Department Manager. In addition, the Department may have to contract with the application vendors to make the necessary password configuration changes.</p>	<p>January 1, 2013</p>

Department Response

On the following pages, we present the Department of Utilities' formal response to this audit.



Department of Utilities
Business Services Division
Customer Service

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June 5, 2012

MEMORANDUM

TO: Jorge Oseguera, City Auditor

FROM: Dave Brent, Director of Utilities 

SUBJECT: Response to Utility Billing Performance Audit

The Department of Utilities (DOU) has reviewed the *City of Sacramento Utility Billing Audit* and has prepared the following responses to the audit findings and recommendations. DOU is continuously seeking efficiencies and accuracy in billing and revenue capture, and the findings and recommendations presented in the audit are in line with our goals and address several areas of which DOU was aware and actively working to address. We thank the City Auditor and the consultant team for their time and dedication on the audit and the resulting report.

Response to Audit Findings and Recommendations

Key Finding 1: Preparation of residential and commercial bills are highly accurate, but improvements are needed to ensure all eligible parcels are properly billed for Storm Drainage.

Recommendation 1: Continue to review all variances and update account records to reflect actual square footage, or document reason for exception.

Response: DOU agrees with the findings and is actively working to correct variances in billing related to storm drainage square footage. An audit query from the billing system has been developed, which incorporates a comparison of Sacramento County's gross parcel square footage with that of the City. The City will work to update billing to reflect the correct square footage according to County records and provide the appropriate bill adjustments for those accounts identified as either over or under billing for this service.

Recommendation 2: Review parcels without CIS accounts, determine which are the same street address as an existing account and receiving City services, and set up accounts for those parcels.



CITY OF SACRAMENTO
DEPARTMENT
OF UTILITIES

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Response: DOU agrees with the findings and has developed an interface with the County's parcel database to identify all parcels that are within City limits, which are not reflected in the City's billing system, and initiate billing consistent with the City's policies and procedures.

Key Finding 2: Liens and Special Assessments are an effective tool for collecting on delinquent accounts, but result in higher write-offs than necessary.

Recommendation 3: Consider initiating a discontinuance process for delinquent accounts.

Response: DOU agrees with the finding to consider alternative collection options for delinquent accounts, in addition to the lien and Special Assessment process. DOU is very interested in reducing write-offs and uncollectible debt. The City Code currently has provisions authorizing DOU to discontinue water services to properties that have delinquent utility accounts. Historically this authority had not been put into practice. DOU currently bills for eight (8) separate utilities services (water, wastewater, fire service, storm drainage, garbage, recycle, lawn and garden and street sweeping), in addition to wastewater treatment service which the City bills for on behalf of the Sacramento Regional Sanitation district. DOU will review the policies, procedures and resources required to operate a discontinuance program and evaluate the feasibility and benefit of such a program for Council consideration.

Key Finding 3: The Department does not monitor collections performance.

Recommendation 4: Monitor collection performance and investigate policy change to improve performance.

Response: DOU agrees with the finding. Current collection efforts for DOU is performed by an outside vendor, under a City-wide contract that is managed by the Revenue Services Division. DOU recently became aware of and obtained access to the vendor's collection's reporting portal. The low collection success rate for DOU accounts identified in the audit, in comparison to the industry, is very concerning to DOU.

The City recently entered into a 5-year contract with the existing collections vendor, which does limit the policy changes that can increase collection effectiveness in the near future. However, DOU plans to coordinate with the Revenue Services Division prior to the end of the contract expiration date to assist in developing language for a new contract that would require stronger reporting and collection recovery performance goals. In the interim, DOU plans to develop a process to closely monitor monthly collection reporting with actual write-offs.

Recommendation 5: Increase assertiveness of billing and collection efforts immediately after a lien is canceled due to foreclosure, such as stronger-worded invoices and clear communication that the Department will soon assign the account to collections.

Response: DOU agrees with this finding. DOU will survey other utility agencies to identify collection policy and procedure best practices, and also move forward with developing stronger language for final bills and pre-collection notices generated, in an effort to collect more revenue prior to referring bad debt to a collection agency.

Key Finding 4: Additional performance reporting can provide a useful tool to monitor billing operations.

Recommendation 6: Determine critical leading (e.g. business process, account aging, lien rates, employee development) and lagging (e.g. revenue) performance indicators and incorporate into Balanced Scorecard measurement system. Use month-to-month trends to identify opportunities for operational improvement.

Response: DOU agrees with the finding to increase performance reporting and monitoring of revenue, trends, and employee development on a month to month frequency. DOU currently runs trend and reporting analysis on revenue, account aging, and write-offs at least quarterly. However, DOU is supportive of incorporating these performance indicators into a monthly Balanced Scorecard measurement system and plans to identify the resources necessary to achieve this recommendation.

Recommendation 7: Monitor lien and foreclosure rates and anticipate revenue changes, should significant changes in rates occur.

Response: DOU agrees with the finding. DOU currently runs analysis on bad debt write-offs in comparison with foreclosure rates and is supportive of also incorporating liens in this analysis. DOU can look into identifying the outstanding lien value of delinquent accounts in order to anticipate revenue changes, and how it relates to uncollectible bad debt and foreclosures.

Key Finding 5: More systematic use of audit queries would be beneficial.

Recommendation 8: Develop schedules for audit queries based upon exception rates.

Response: DOU agrees with the finding and is currently in the process of developing a schedule for internal billing queries based upon high-level exceptions. DOU has already developed queries for possible billing and account exception areas, and has identified those accounts with the largest possible variances.

Key Finding 6: Most billing services job descriptions align with responsibilities of position incumbents.

Recommendation 9: Investigate alternative class specifications for a subset of Account Clerk IIs that perform more research and troubleshooting tasks.

Response: DOU concurs that an investigation of the appropriate classifications that perform the utility billing functions be conducted. Although DOU has not found gaps in the skill-sets of externally hired Account Clerk IIs in the areas of attention to detail, research and troubleshooting, DOU does recognize that transfers from other City Departments into DOU may result in a gap in skill-sets impacting quality assurance and billing effectiveness. In addition, DOU had previously identified a skill gap in the Customer Service classification series, although the job description was written very broadly to cover all possible aspects of the work performed in utility billing.

Around 2005, a position study was performed on several classifications, including Utility Customer Service Technicians, Typist Clerk IIs, and other clerical staff within the City. Upon completion of the study, all of the employees with the existing classifications that had any contact with customers were grouped into the new Customer Service classification series. The grouping has resulted in varied skill-sets and abilities existing with staff in the current Customer Service classification and initially a great deal of development was required for existing staff and new hires. In addition, although the job description is very broad, the application review and testing process is not. It is understood that the application screening for a Customer Service Representative requires minimally any level of customer contact or service. It is also understood that the testing focuses on basic clerical work and customer service skills. As a result, DOU has encountered challenges in the recruitment of qualified applicants that can perform the necessary billing tasks and also possess the attention to detail, research and troubleshooting skill-sets required. Therefore, DOU is very interested in having a classification study performed in order to develop a classification with recruitment and testing that is in line with DOU's needs to achieve effective and accurate billing.

Key Finding 7: General and application controls on IT systems could be improved.

Recommendation 10: Develop policies and implement procedures requiring periodic (e.g. monthly) reviews of CIS super user activities.

Response: DOU agrees with the recommendation and will work with IT to develop procedures relating to the regular review of CIS billing super users.

Recommendation 11: Develop and implement a formal administrative policy increasing password configuration requirements for applications that impact Department review.

Response: DOU supports the recommendation and will incorporate stronger password requirements in the meter reading database and any other applications that interface with the billing system and impact revenue.