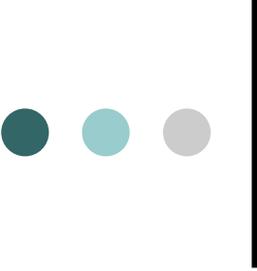


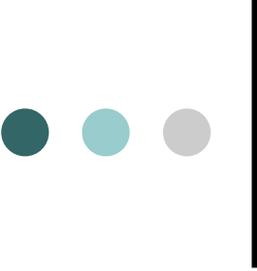
Review of Proposed Ordinance 06-O-1363 to Write-off 115 Uncollectible Accounts

City Auditor's Office
Leslie Ward, City Auditor
Amanda Noble, Deputy City Auditor
Audit Team: Richard Edwards & Ty Elliott
September 13, 2006



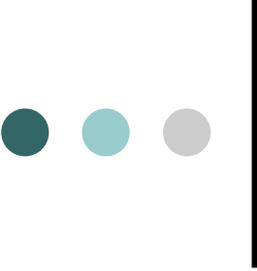
Presentation Agenda

- Background
 - Audit Initiation
 - Objectives
 - Scope & Methodology
- Write-off Policy
- Collection Process
- History of Delinquent Accounts
- Conclusions
- Recommendation



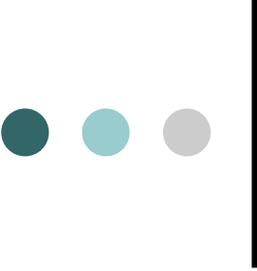
Audit Initiation

- The Finance/Executive Committee Chair requested that we review the city's process and procedures for writing off delinquent water and sewer accounts receivable following discussion of proposed Ordinance 06-O-1363.
- The ordinance requests authorization to write off 115 uncollectible accounts, each with a balance of \$10,000 or more, totaling about \$3.26 million.
- The Department of Watershed Management is converting to a new billing and collection system. The department proposed writing off all closed accounts over 4 years old to clean up the data before full implementation.



Audit Objectives

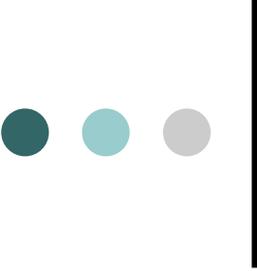
- Did the Department of Watershed Management establish and follow specific criteria for the 115 accounts proposed for write-off?
- What actions did the Department of Watershed Management take to collect on the 115 accounts proposed for write-off?
- Is the Department of Watershed Management's process for writing off accounts consistent with previous audit recommendations?



Audit Scope & Methodology

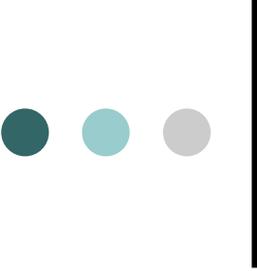
- Reviewed a sample of 25 of the 115 accounts proposed for write-off, including three accounts of other government entities, to identify the reason the account is uncollectible and assess the department's efforts to collect amounts owed.
 - Used sampling technique designed to select larger accounts while still obtaining an unbiased sample. The sample represents 22 percent of the accounts and 42 percent of the total dollars.
- Reviewed Department of Watershed Management's procedures for identifying and writing-off uncollectible accounts and interviewed staff from the departments of Water, Finance, and Law.

This audit was conducted in accordance with generally accepted government auditing standards except for completion of an external peer review. Our review is planned for later this year.



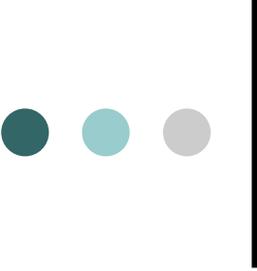
Current Policy Consistent with Audit Recommendations

- Current write-off policy is consistent with our previous audit recommendations:
 - Initiating the collections process earlier
 - Writing-off uncollectible accounts more quickly to ensure GAAP compliance
 - Identifying accounts that are over four years delinquent and accounts that have outstanding disputes
 - Initiating dispute resolution and lien actions



Department of Watershed Management's June 2003 Write-off Policy

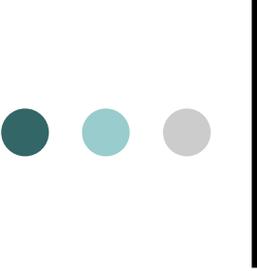
- Accounts are uncollectible and subject to write-off when any of the following circumstances occur:
 - The debtor cannot be located
 - The 4-year statute of limitation has expired and the account is inactive
 - The debtor files for bankruptcy
 - The account balance cannot be substantiated (no supporting documentation of the debt)



The Collection Process

The Department of Watershed's collection process involves the following steps:

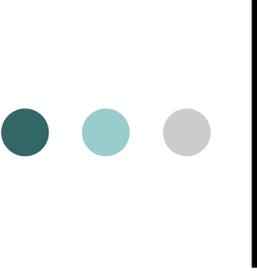
1. Bill the account
2. The bill becomes due
3. Assess a late fee
4. Initiate shut-off action
5. Shut-off service / lock meter
6. Initiate lien action
7. Remove meter
8. Place a lien on the property
9. Close the account
10. Refer the account to a collection agency
11. Write-off the past due balance



All Accounts Met Write-off Criteria

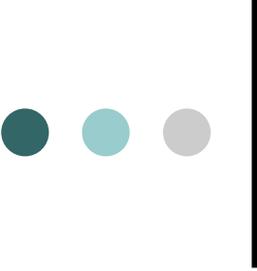
All 25 accounts reviewed met the Department of Watershed Management's established criteria for writing off delinquent accounts.

- All accounts were closed and over 4 years delinquent
- 6 accounts had bankruptcy filings
- 2 accounts appeared to be uncollectible because the debtor could not be located
- 1 account appeared to be subject to write-off due to insufficient documentation of a disputed debt



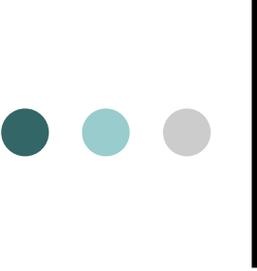
Collection Efforts on Sample Accounts

- Disputes: 15 accounts (60%) Most related to broken meters or leaks. About 80% of the uncollectible amount fell into this category.
- Payment plan: 4 accounts (16%).
 - One government agency made a partial payment in October 2002 and it is not clear why the remaining payment was not made.
- Terminated service: 11 accounts (50%), excluding the 3 government accounts.
- Referred for property liens: 5 accounts (23%), excluding the 3 government accounts. Two confirmed by tax records.
- Referred to collection agency: 20 accounts (80%).
- No evidence found indicating any collection efforts or dispute: 1 account (4%).



Most Accounts Too Old to Collect When the City Resumed Operations

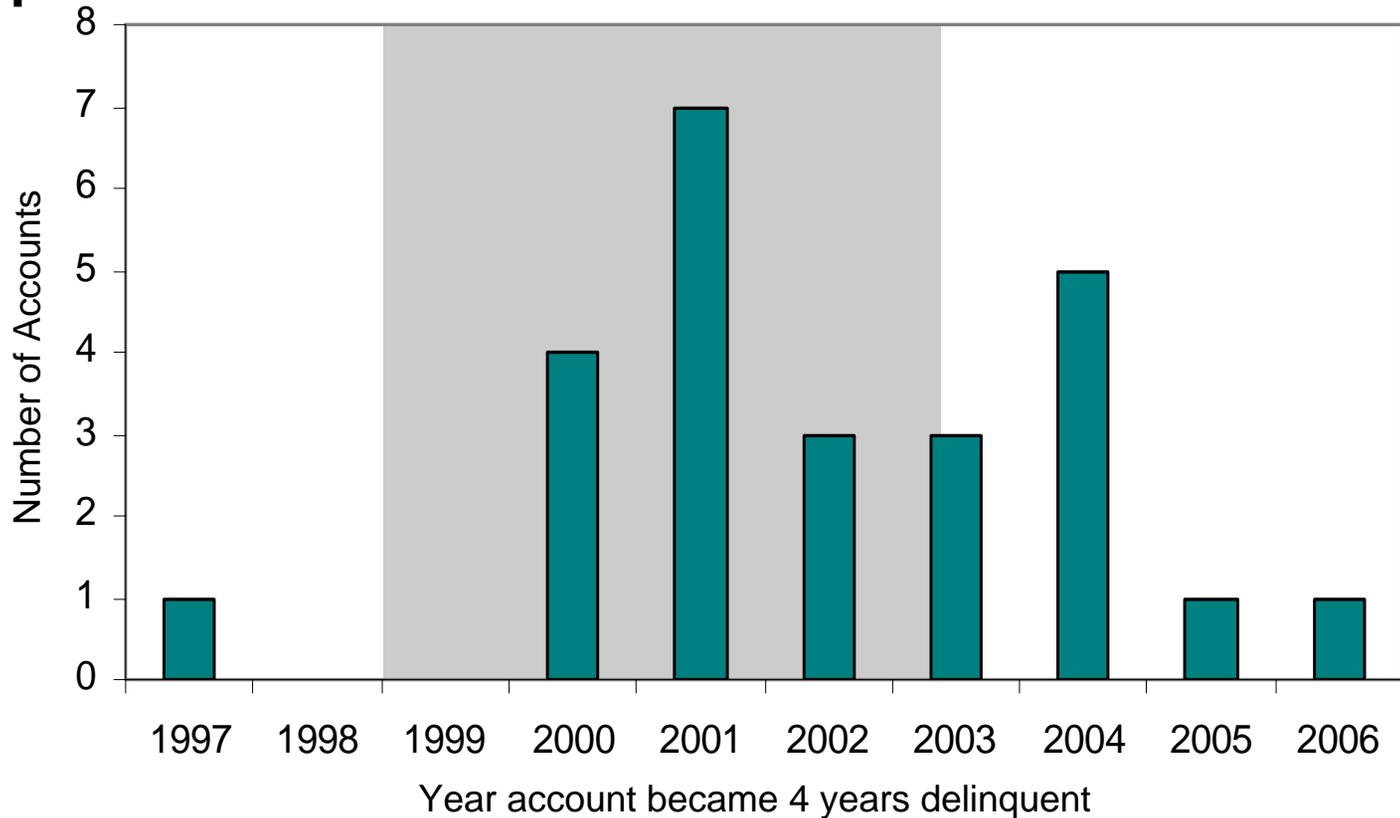
- Most of the sample accounts were past the 4-year statute of limitations when the city resumed collection responsibility from United Water in 2003.
- As a result, the Department of Watershed Management did not exhaust all collection efforts at its disposal before recommending the accounts for write-off.



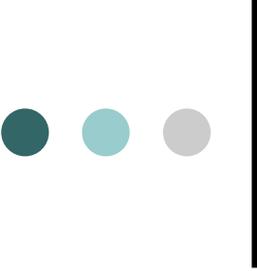
History of Delinquent Accounts

- One account was four years delinquent before United Water assumed operations
- Fifteen accounts became four years delinquent during United Water operations
- The remaining nine were at least a year delinquent when the city resumed operations (average delinquency of 2.5 years)

Analysis of Delinquent Accounts

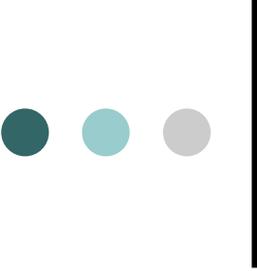


Grey represents period United Water responsible for billing and collection (1/1/99 to 4/30/03)



Conclusions

- Additional collection efforts on the accounts we reviewed are unlikely to be cost-effective.
- The Department of Watershed Management's current collection process and timeline are reasonable and should reduce future write-offs.



Recommendation

When submitting write-off legislation for City Council consideration, the Department of Watershed Management should summarize for each account why it is uncollectible, what collection efforts have been made, and which criteria for write-off are met.