



**A REPORT FROM  
THE OFFICE OF INTERNAL AUDIT**

**PRESENTED TO THE CITY COUNCIL  
CITY OF BOISE, IDAHO**

**AUDIT / TASK:           #20-07, Utility Billing - Collections**  
**AUDIT CLIENT:         Public Works**  
**REPORT DATE:         July 27, 2021**  
**AUDIT GRADE:         Satisfactory**

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**AUTHORITY:           Boise City Code, 1-12A  
FY2020 Work Plan**

# OFFICE OF INTERNAL AUDIT ACTIVITY REPORT

## **TASK #20-07, Utility Billing - Collection** **DATE OF ENGAGEMENT: June 19, 2020**

### **INTRODUCTION**

The City of Boise's Public Works Department provides water renewal and solid waste collection services to city residents. The Utility Billing (UB) Division, of Public Works, is responsible for utility account maintenance, billing, and payment collection for these services.

Each of these – water renewal and solid waste – is segregated within its own unique fund for accounting purposes. The following budgets / statistics for Fiscal Year 2020 provide perspective relative to the size of these service initiatives:

#### Water Renewal Fund<sup>1</sup>

- Operating Revenue = \$56.9 Million
- Operating Expenses = \$41.5 Million

#### Solid Waste Fund

- Operating Revenue = \$38.3 Million
- Operating Expenses = \$37.1 Million

Utility Billing includes a collection process that manages utility accounts with overdue balances. Accounts are referred to the collection process after they have exceeded the following aging thresholds for payment: Commercial Accounts > 30 Days; Residential Accounts > 60 Days.

Aged accounts are identified via a series of aging reports that are generated from the UB system and uploaded into the UB collection system (two separate systems that manage and track collection activity). Staffed Collectors are assigned accounts and perform outreach to account owners for payment collection. Collectors apply payments received to utility accounts, and the City's financials are updated via automated system upload.

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<sup>1</sup> Excludes revenue and expense amounts not associated with operations.

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During FY19, at Management's request, we performed a consulting engagement over the collection process and provided Management with a list of Best Practices and Recommendations. This audit will assess Management's response.

### **SCOPE AND METHODOLOGIES**

The purpose of the audit was to gain a reasonable degree of assurance that the control environment surrounding the collection processes is based upon sound business practice. The environment should ensure processes are conducted efficiently and effectively, while maintaining compliance with established policies and procedures. Internal Audit has defined the following specific objectives for the review:

- Ensure that collection processes are occurring in accordance with established policies and procedures.
- Review the overall efficiency and effectiveness of collection efforts.
- Assess management monitoring.
- Ensure that revenue, and account data, is captured accurately and timely, and verify that the system data is properly reconciled.

Internal Audit has established an initial scope of the audit to include collection activities that occurred from November 1, 2018 to May 31, 2020. Due to pandemic related assignments and project interruption, and to illustrate performance trends, we extended our review scope to April 30, 2021.

Internal Audit utilized a combination of interviews, observation, and detailed attribute testing to accomplish the defined objectives. The methods employed, and the evidentiary materials developed were deemed to be adequate to support the conclusions contained within this report.

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## EVALUATION AND COMMENTS

Based on the results of the work performed, management oversight of Utility Billing - Collections results in a “**Satisfactory**” level of performance. We did not detect any conditions that appeared to pose a continuing, substantial risk to the Division’s ability to accomplish its goals and objectives.

(Refer to **Appendix A** for additional details concerning Internal Audit’s existing grading scale.)

Through observation, inquiry, and testing we gained a satisfactory comfort level that collection processes are occurring in accordance with established policies and procedures.

### **Collection System**

To validate the accuracy and completeness of the collection system upload, we obtained Utility Billing system reports and selected a sample of accounts to trace to the collection system. We agreed the account attributes, amounts, and timing to the collection system, for each selection, without exception.

During our FY19 analysis we noted multiple instances of account duplication spread across collection system worklists. Additionally, we noted a significant number of collection accounts had not been actively assigned to a Collector for processing.

To assess Management’s operational enhancements, since our review, we analyzed the total population of collection accounts and verified that each collection account had been assigned to a Collector for processing. Additionally, we noted no instances of account duplication across Collector worklists.

### **Collection Effectiveness**

To assess the effectiveness of the collection process, we reviewed the collection account population (6,618 accounts) and analyzed “Last Payment Dates.” Of the total population, we noted that 81% of accounts have recorded some level of payment history. See Table 1 below for details.

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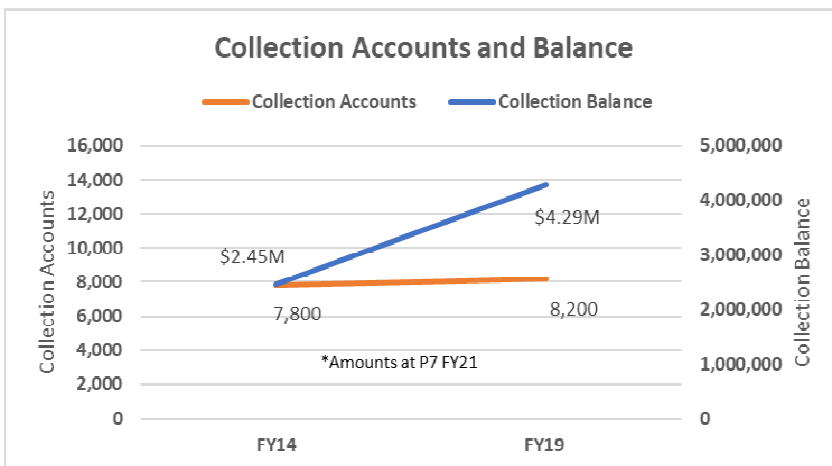
**Table 1 (collection data as of 4/6/21)**

Last Payment Date	Total Count	% of Total	Paid Total	Remaining Balance
Greater than 10 Years	86	1%	\$13,449.80	\$47,171.64
5-10 Years	367	6%	\$54,502.14	\$443,354.85
1-5 Years	1,639	25%	\$411,382.55	\$1,581,440.56
Less than 1 Year	3,274	49%	\$838,157.26	\$1,840,412.36
No Payment History	1,252	19%	\$0.00	\$407,451.06
<b>Total</b>	<b>6,618</b>	<b>100%</b>	<b>\$1,317,491.75</b>	<b>\$4,319,830.47</b>

While examining payment history, we identified a listing of accounts without recorded payments; however, we noted multiple instances of Collector comments indicating some sort follow-up had occurred. When combining unpaid accounts with comments with accounts receiving some level of payment, it appears that collection procedures have been performed on approximately 85% of collection accounts.

During our previous review we noted significant increases in the collection account totals, and in the overall collection balance. Utility Billing staff performed both Utility Billing responsibilities (account maintenance / billing / payment collection) and Collector responsibilities. Additionally, the collection process did not have specific collection supervision. This organization appeared to negatively impact the collection process, as the overall collection account balance significantly increased over the period under review. See Table 2 for details.

**Table 2 (as of FY19)**

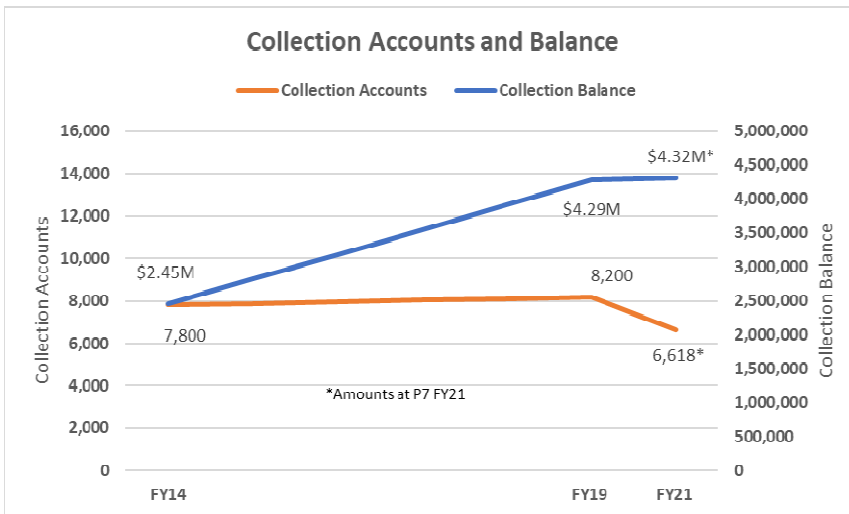


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Since our review, we noted that Utility Billing has separated the collection process from other Utility Billing responsibilities and has added a collection Supervisor to the process.

To assess the effectiveness of these changes, we analyzed the collection data and noted that the overall FY21 collection account total appears to have significantly declined. Additionally, the overall account balance has remained relatively flat. See Table 3 below for details.

**Table 3 (as of FY21)**



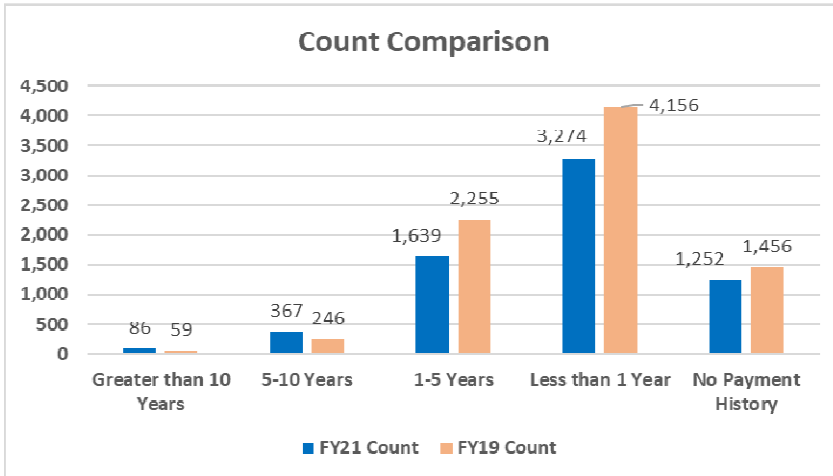
This suggests that the Utility Billing reorganization has increased overall Collector focus, effectiveness, and efficiency.

### Collection Write-Off

Utilizing the payment categories identified at Table 1, we compared FY21 statistics with results from FY19 to assess changes in account totals. We noted small increases in accounts aged greater than 5 years and substantial decreases in accounts aged less than 5 years. See Table 4 below for details.

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**Table 4 (FY19 – FY21 count comparison)**



This appears to suggest that Collectors have been targeting current collection accounts that may provide a higher probability of collection success; the balances evident at Tables 2, 3, and 4 indicate that Utility Billing is effectively managing the overall collection balances, through collection and write-off efforts.

Although it appears that accounts aged 5+ years have increased since FY19, Utility Billing Management has implemented a Quarterly account review to determine collectability and potential write-off.

To verify the Quarterly review, and write-off process, we obtained the January (Q2 FY21) write-off spreadsheet and confirmed that each account listed contained comments indicating Management review. We selected a sample of accounts for testing and confirmed that those uncollectible accounts had been written-off in both the Utility Billing system and the collection system. No exceptions were noted.

### **Payment Reconciliation**

As payments are received by Collectors, the Utility Billing system is updated to reflect payment. System reports are generated from the Utility Billing system and uploaded to the collection system, as previously noted / tested above (**Collection System**), and system batch transfers are made from the Utility Billing system to the City's financials.

To validate the accuracy and completeness of the City's financial upload, we selected a sample of payments to trace from the Utility Billing

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system to the City's financials. We agreed the payment amounts and upload timing, for each selection, without exception.

Monthly account reconciliations are performed, with inputs from the Utility Billing system and the City's financials, to verify completeness and accuracy of the system batch uploads. To verify the account reconciliation process, we obtained a sample of account reconciliations for review. No exceptions were noted.

### **Utility Billing Hardship Discount**

The City provides a hardship discount to applicants who meet specific income guidelines that have been established by the city's Housing and Community Development Division. Recent growth trends and rent increases potentially increase the risk that future customers will be unable to pay utility accounts in a timely manner.

During our FY19 review, we recommended that Utility Billing re-evaluate the Hardship Discount Program requirements to verify the reasonableness of income thresholds. Since our review, Utility Billing has partnered with two area housing agencies on their COVID-related assistance programs and is directing UB customers to those agencies for qualification inquiry. Additionally, Utility Billing is working to implement short, and long, term goals to expand eligibility requirements and add assistance programs.

Although Hardship Discount Income guidelines have yet to be updated, Utility Billing appears to be working toward implementing programs to assist utility customers.

### **CONCLUSION**

The control environment that surrounds Utility Billing - Collection services is generally effective and efficient. We recognize Management's efforts at reorganizing and refocusing the collection effort. Results are evident in the populations and amounts of past due accounts – both of which have improved since our previous assessment. As indicated in the tables appearing above in this report, trends have stabilized in terms of the total delinquent dollars outstanding and have shown significant improvement relative to the number of delinquent accounts in the portfolio. Management's willingness to implement needed change has resulted in measurable improvements.

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Internal Audit would like to express appreciation to Public Works management for their assistance and cooperation during this review.

### **MANAGEMENT PARTICIPANTS**

Heather Buchanan, Chief Administrative Officer/PW

Roxanna McNew, Utility Customer Service Manager/PW

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## APPENDIX "A"

### **Evaluation and Grading of Audits**

Each audit will be evaluated, or graded, and will receive one of the three following ratings. Grades will be assigned based on the perceived "best fit." Thus, not all attributes associated with an assigned grade may be present within a given Department or Division.

- Satisfactory – No significant weaknesses or operational issues were noted during the audit. If any issues were noted, they did not materially detract from the business unit's ability to deliver services and / or to accomplish defined mission, goals, and objectives. Overall, systems of internal control are effective, and management oversight is adequate and effective.
- Needs Improvement – Weaknesses or issues detrimental to operational efficiency or effectiveness existed within the audited area and were encountered frequently enough to lose the appearance of "isolated." Issues noted were strongly suggestive of an impaired ability to provide services at needed levels, or to accomplish mission, goals, and objectives successfully. Internal control mechanisms may not be universally in place, implemented, or actively observed. Management oversight is weak.
- Unsatisfactory – Material or significant issues were noted within the operations under review. Issues posed risks that were mission-fatal; the business unit could not successfully deliver services in an acceptable fashion. Management failed to implement appropriate internal control mechanisms. Management oversight is ineffective, absent, or willfully avoided.