



Citywide Collections

Report Period: July 2018 - June 2020

Issue date: August 12, 2021

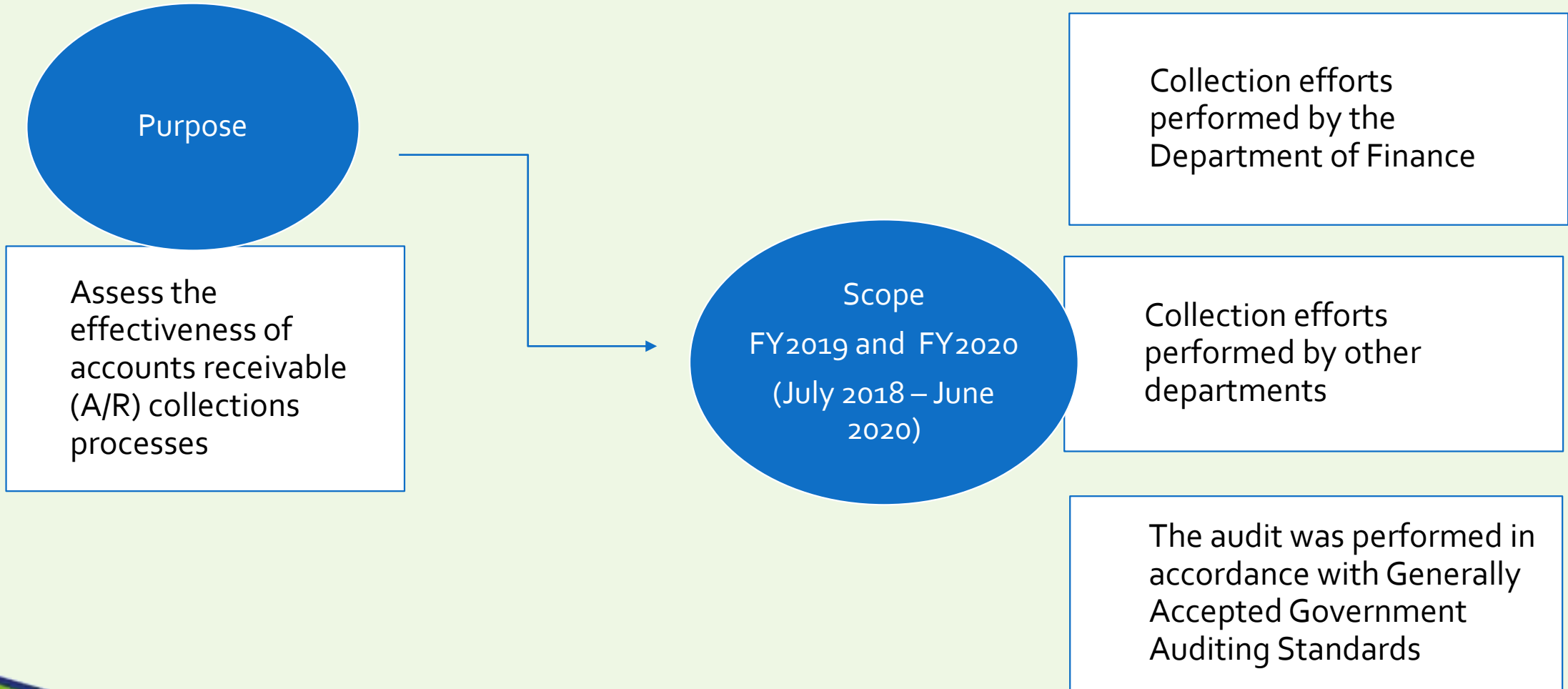
Office of the City Auditor

Report No. 21-02

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Purpose and Scope



Citywide Collections Challenges

Size and Nature of debt being collected

As of June 30, 2020 - \$42M outstanding accounts receivable (net of allowance for doubtful accounts)

Many different revenue types (fees, fines and services)

Multiple revenue sources (many departments involved)

Various collections methods are available depending on the revenue type but not fully utilized by all departments

- Judgments, liens, debt set-off, third-party collection

Limited resources

Personnel time

Personnel expertise

System reporting capabilities

There are different levels of data reliability such as sufficiency, uniformity and accuracy due to decentralization and varying types of revenue

The many programs / software systems have different capabilities (one department uses a manual system)

The Department of Finance recently implemented a new collections system that resulted in the retirement of several internally developed legacy systems to assist in the standardization of collection efforts

Audit Conclusions

1

Collection efforts are not as successful as they could be due to the complexities of many different accounts receivable sources (32), types (9) and systems (13).

2

Resources such as personnel hours and expertise are scarce for many departments – insufficient to carry out substantial collection efforts.

3

Consider consolidation/centralization of collections efforts for city departments with smaller accounts receivable and resource challenges under the Department of Finance Collections Division.

4

Implementation of the new CSS Impact Ecosystems collections software will help improve the collection efforts of the Department of Finance's Collection Division and could provide the same type of benefits to other city departments if implemented citywide.

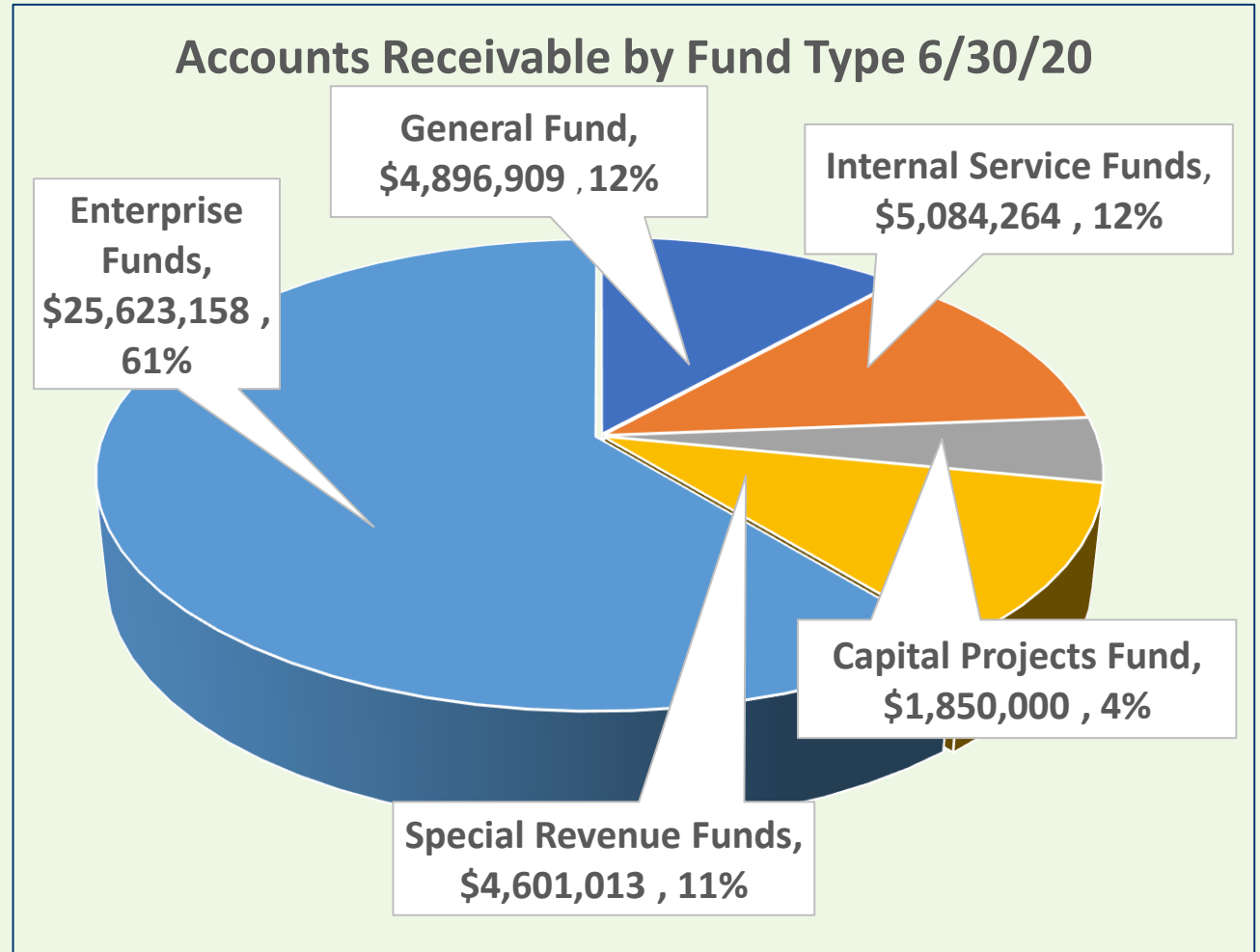
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The Department of Finance will finalize and issue detailed guidance for citywide collections that it proactively created after identifying the limited resources and knowledge in departments.

FY2020 Accounts Receivable (Net) (a) by Fund

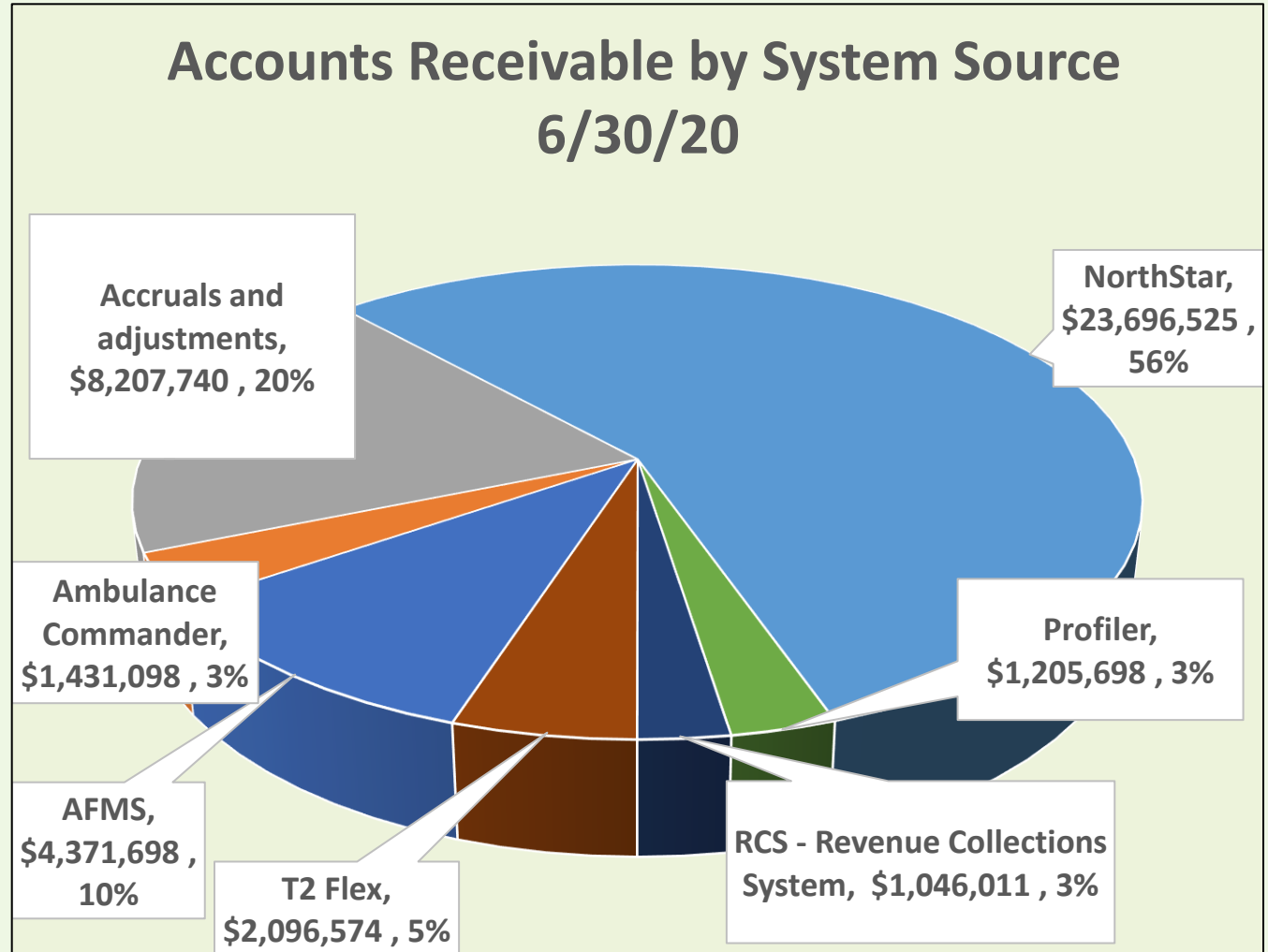
Fund Type	Amount	Percentage
Enterprise Funds	\$ 25,623,158	61%
Special Revenue Funds	4,601,013	11%
General Fund	4,896,909	12%
Internal Service Funds	5,084,264	12%
Capital Projects Fund	1,850,000	4%
Total	\$ 42,055,344	100%

(a) Accounts receivable net of Allowance for doubtful accounts



FY2020 Accounts Receivable (Net)^(a) by System Source

System Source	Amount	Percentage
AFMS	\$4,371,698	10.4%
Ambulance Commander	1,431,098	3.4%
Accruals and adjustments ^(b)	8,207,740	19.5%
NorthStar	23,696,525	56.3%
Profiler	1,205,698	2.9%
RCS - Revenue Collections System	1,046,011	2.5%
T2 Flex	2,096,574	5.0%
Total	\$42,055,344	100.0%



^(a) Accounts receivable net of Allowance for doubtful accounts.

^(b) Accruals and adjustments largely consist of revenue received within 45 days after year end which, by definition, constitutes a governmental receivable.

General Fund at June 30, 2020

Department	Gross Accounts Receivable	Allowance for Doubtful Accounts	System Source
Fire-Rescue	\$ 17,761,106	\$ 16,330,008 (B)	Ambulance Commander
Norfolk Community Services Board	1,927,641	721,943	Profiler
Neighborhood Development	1,046,011	(b)	RCS – Revenue Collections System
Transit	374,216	(b)	AFMS
Various departments (A)	82,061	(b)	AFMS
Constitutional Offices (chiefly)	1,811,707	(b)	Accruals and adjustments
Norfolk Community Services Board	270,234	(b)	Accruals and adjustments
Maritime Center	82,118	(b)	Accruals and adjustments
City Attorney	35,623	(b)	Accruals and adjustments
Human Resources	16,475	(b)	Accruals and adjustments
<i>Allowance for Doubtful Accounts</i> <i>(b) (aggregated for above Depts)</i>	-	1,458,332	Calculation
Total General Fund	\$ 23,407,192	\$18,510,283	

- A. Public Works, Gen Services, Human Resources, Information Technology, Human Services, RPOS, Comm of the Revenue, Zoo
- B. Allowance is cumulative and dates back 20+ years

- Total remaining accounts receivable (gross AR less allowance) = \$4.9 M
- Department Count = 16

Internal Service and Capital Improvement Projects Funds at June 30, 2020

Internal Service Funds - Total remaining accounts receivable = \$5.1 M			
Department Count = 2			
Department	Gross Accounts Receivable	Allowance for Doubtful Accounts	System Source
Fleet	\$ 165,020	-	AFMS
Healthcare	4,919,244	-	Accruals and adjustments
Total Internal Service Funds	\$ 5,084,264	-	

Capital Improvements Projects Fund - Total remaining accounts receivable = \$ 1.9 M			
Department Count = 1			
Department	Gross Accounts Receivable	Allowance for Doubtful Accounts	System Source
Capital Projects – Camp Allen Elem	\$ 1,850,000	-	Accruals and adjustments
Total Capital Improvements Projects Fund	\$ 1,850,000	-	

Special Revenue Funds at June 30, 2020

Department	Gross Accounts Receivable	Allowance for Doubtful Accounts	System Source
Waste Management	\$ 3,512,763	\$ 1,185,400	NorthStar
Towing and Recovery	12,184	11,500	AFMS
Transit	1,437,749	-	AFMS
Waste Management	94,827	-	AFMS
Public Works	58,682	-	AFMS
Cemetery Fund	53,655	-	AFMS
Recreation Parks and Open Space	3,575	-	AFMS
Golf Fund	1,250	-	AFMS
Cemetery Trust Fund Endowed	1,140	-	AFMS
Variance of prior years not adjusted	31,924	-	AFMS
Community Development Fund	415,601	-	Accruals and adjustments
Additional departments	343,701	169,138	Accruals and adjustments
Total Special Revenue Funds	\$ 5,967,051	\$ 1,366,038	

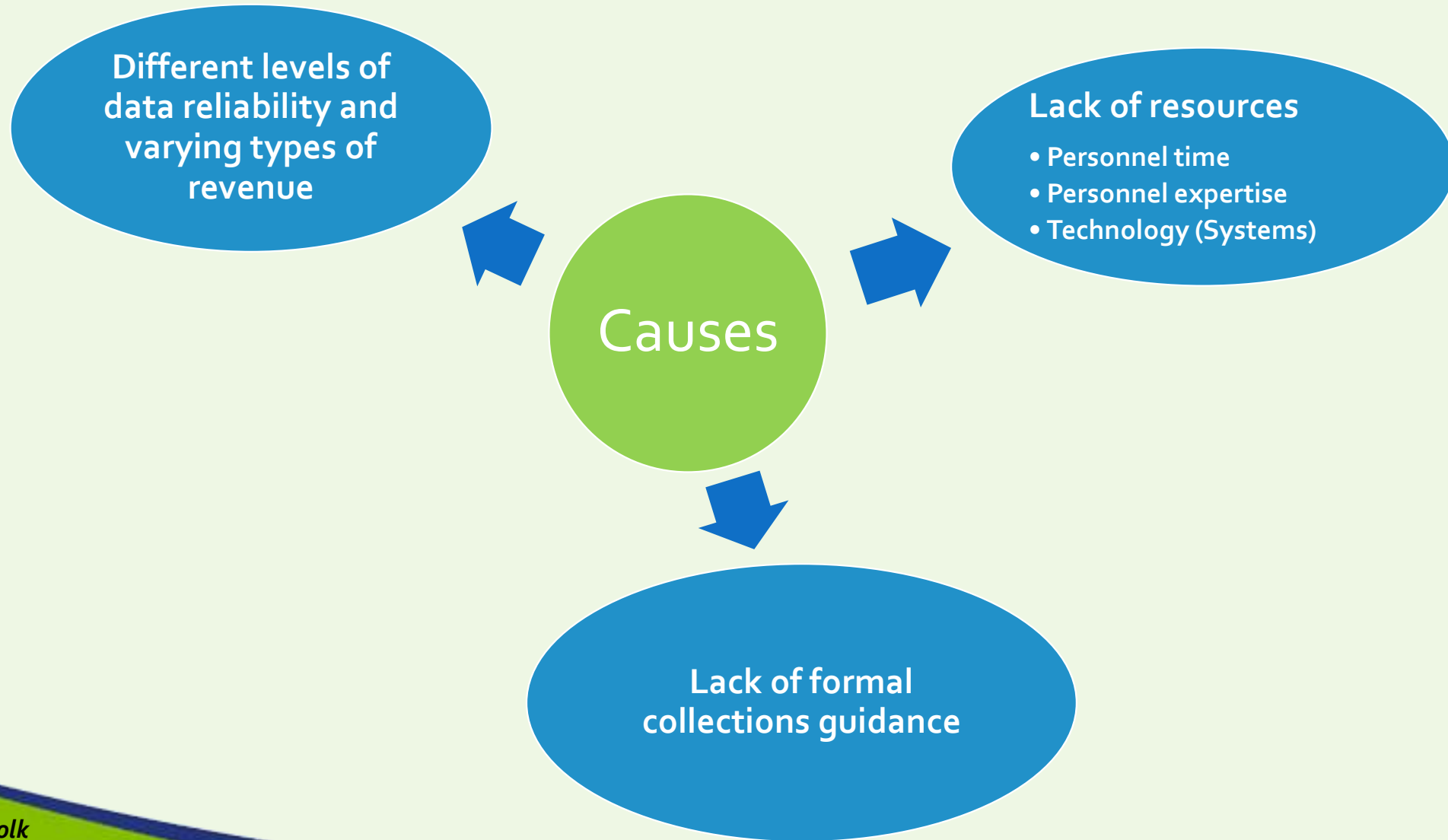
- Total remaining accounts receivable (gross AR less allowance) = \$4.6 M
- Department Count > 12

Enterprise Funds at June 30, 2020

Fund	Gross Accounts Receivable	Allowance for Doubtful Accounts	System Source
Water	\$ 14,943,914	\$ 2,095,000	NorthStar
Wastewater	5,821,223	1,000,000	NorthStar
Storm Water	4,196,141	497,116	NorthStar
Parking	22,260,201	20,163,627	T2 Flex
Water (AFMS)	2,066,565	-	AFMS
Wastewater (AFMS)	350	-	AFMS
Storm Water	90,507	-	Accruals and adjustments
Total Enterprise Funds	\$ 49,378,901	\$ 23,755,743	

- Total remaining accounts receivable (gross AR less allowance) = \$25.6 M
- Fund Count = 4

Certain departments' collection efforts could be more successful



Certain departments' collection efforts could be more successful

Examples of past due accounts receivable totals

Department	Revenue Source	Total Receivable at 6/30/20	Past Due	Past Due Amount
Parking (a)	Fees	\$ 3,285,757	Over 90 days	\$ 1,394,669
Parking (a)	Citations	\$ 18,974,474	1 - 2 years	\$ 772,438
			2 - 3 years	730,000
			3+ years	16,760,326
Police	False alarms	\$ 196,915	3+ years	\$ 125,020
Cultural Facilities Arts and Entertainment	Venue rental	\$ 393,779	3+ years	\$ 270,390

(a) Parking total receivable as of June 30, 2020, \$22.3M
 Allowance for doubtful accounts 20.2M
 Net accounts receivable \$ 2.1M

Collection efforts could be more successful for AFMS Billings – Accounts Receivable Aging at June 30, 2020

Department	0 to 30 days	31 to 60 days	61 to 120 days	Over 120 days	Total
Cemetery	\$ 15,050	\$ 20,900	\$ 10,500	\$ 7,035	\$ 53,485
Commissioner of the Revenue		245	74	1,853	2,172
General Services			2,254	17,393	19,647
Human Resources				10,522	10,522
Human Services		589		4,126	4,715
Information Technology		3,736	2,626	2,866	9,228
Public Works		746,255	660,355	134,432	1,541,042
Recreation Parks and Open Space				7,117	7,117
Transit	248,382	2,776	112,009	29,906	393,073
Zoo				2,110	2,110
Fleet Management		14,474	46,993	103,552	165,019
Towing and Recovery				684	684
Waste Management		37,499	37,095	20,235	94,829
Water	3,675	1,028,599	970,857	63,434	2,066,565
Wastewater				350	350
Cemetery Trust		600		540	1,140
Total	\$ 267,107	\$1,855,673	\$ 1,842,763	\$ 406,155	\$ 4,371,698

Recommendations & Management's Response

Certain departments' collection efforts could be more successful

We recommend:

The City provide departments with the necessary resources to improve collection efforts

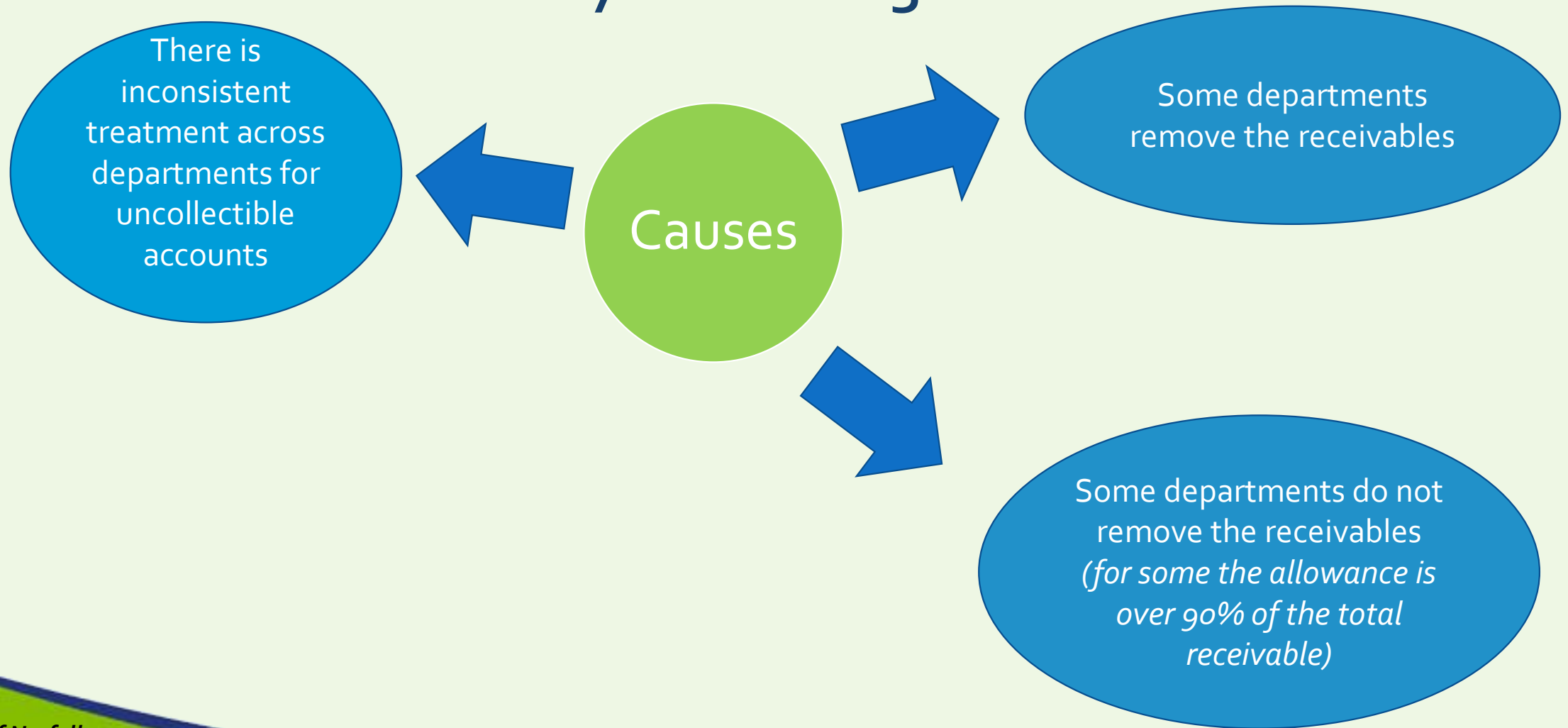
Departments more closely monitor their collection efforts to ensure appropriate efforts are being made to collect

The Department of Finance issue the SOP Manual it was already working on to provide guidance to other Departments with collection efforts

Management's Response:

- Finance plans to issue formal billing and collections guidance in the summer of 2021
- Finance has been providing informal guidance to departments
- Finance has proactively targeted departments with greatest need to provide assistance
- Finance will need additional resources to implement increased centralization

While Allowance for doubtful accounts is charged annually, some uncollectible accounts receivable have not been removed from City accounting records



Some Uncollectible accounts receivable have not been removed from City accounting records (A)

Comparison of Gross Accounts Receivable to Allowance for Doubtful Accounts & Revenue

		Balances as of June 30, 2020			
Selected Departments	FY2020 Revenue	Gross Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable	Allowance as % of Gross Accounts Receivable
General Fund					
Fire-Rescue – Paramedic (A)	\$ 7,109,556	\$ 17,761,106	\$ 16,330,008	\$ 1,431,098	91.9%
Norfolk Comm Services Board	5,330,659	1,927,641	721,943	1,205,698	37.5%
Special Revenue					
Waste Management	\$ 20,847,507	\$ 3,627,590	\$ 1,185,400	\$ 2,442,190	32.7%
Business-Type Activities					
Water Utility fund	\$ 91,376,988	\$ 17,010,479	\$ 2,095,000	\$ 14,915,479	12.3%
Wastewater Utility fund	31,705,215	5,821,573	1,000,000	4,821,573	17.2%
Storm Water Utility fund	21,665,560	4,286,748	497,116	3,789,632	11.6%
Parking Facilities fund (A)	19,952,910	22,260,202	20,163,627	2,096,575	90.6%

Recommendations & Management's Response

Some Uncollectible accounts receivable have not been removed from City accounting records

We recommend:

The departments analyze uncollectible accounts receivable and the Department of Finance provide guidance on when and how departments should write off uncollectible accounts

Management's Response:

- Decentralization – many different revenue sources, systems and resources complicate this process
- Challenge is the ability to retain account information after charge-off for future reference
- New CSS system has ability to archive data on written-off accounts
- Finance plans to issue formal billing and collections guidance in the summer of 2021 which will address inconsistencies in the write off of receivables

Objectives and Methodology

Objectives:

- Determine whether centralizing the collections function under the Department of Finance:
 - Would enhance current collections operations and effectiveness
 - Is feasible utilizing current systems and personnel

Methodology:

- Review of policies and procedures
- Questionnaires to departments
- Review of accounts receivable records

Government Audit Standards

- We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

Statement of Independence

- Norfolk City Code Chapter 11 states that the City Auditor is appointed by City Council and that employees under the City Auditor serve exclusively at-the-will of the City Auditor. Accordingly, the members of the Office of the City Auditor are independent of City Management and thus independent per the GAGAS requirements.

Internal Control/Data Reliability

Internal Control

- We assessed internal controls as required by GAGAS and determined the significance of internal controls to the audit objectives. We did not find significant internal control deficiencies.

Data Reliability

- We relied on data generated from the City's Advantage Financial Management System (AFMS) and certain subsidiary accounting systems for this audit. The extent of our evaluation was dependent upon the expected importance of the data to the final report, strengths or weaknesses of any corroborating evidence, and anticipated level of risk in using the data. We determined the financial information from AFMS and the subsidiary systems which was used as the basis for the external audited financial statements to be reliable and, therefore, the level of risk from using this information to be low.

We thank the Department of Finance and the Departmental Management of the City of Norfolk for their cooperation and responsiveness to our requests during this audit.

If you have any questions, I can be reached at 664-4044 or via email at tammie.dantzler@norfolk.gov