



CITY OF GARLAND, TEXAS

# **CUSTOMER SERVICE BILLING AND COLLECTIONS AUDIT**

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## **INTERNAL AUDIT DEPARTMENT**

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## EXECUTIVE SUMMARY

### OBJECTIVES:

- Verify the Customer Service Department is in compliance with laws, regulations, and the City ordinance
- Analyze the Customer Service billing and collection process for compliance with policy and internal controls and ensure they are in place and working effectively.
- Analyze the utility billing system to determine if all active customers are included in the monthly billing cycle and ensure billings are calculated correctly
- Evaluate the reasonableness of billing to collection ratios.

### OVERALL CONCLUSION:

The Customer Service Department for the City of Garland provides utility service to customers. This department serves a vital function for the City. They provide service to its customers from the application process through the billing process. Our audit provides opportunities to improve governance, reduce risk, improve internal control and optimize revenue.

### OPPORTUNITIES FOR IMPROVEMENT:

**1. The City is paying the State for sales tax on accounts that have been written off.**

**(Reference Page 10)**

**Recommendation:** We recommend that the Finance Department:

- Continue to pursue a credit from the state for overpayment of sales taxes going back 4 years as the statute of limitations allows.
- Update the sales tax payment process in order to ensure that erroneous overpayments do not occur in the future.

**Management Response:** *Concur; Customer Service and the Finance Department have recently implemented process changes to address this opportunity. The Customer service Department will provide Finance with any additional support or related information concerning sales tax refunds. Financial Services has filed amended sales tax returns and requested a refund going back four years.*

**2. Credit card transaction fees are currently absorbed by the City, not the customer.**

**(Reference Page 10)**

**Recommendation:** We recommend that the Customer Service Director implement a method whereby the customer would pay the credit card transaction fee if they chose to pay by credit card.

**Management Response:** *Concur; interviews with third party credit card processing companies should be completed in June. Implementing a credit card payment system that will assess a transaction fee should be in place by mid August 2009.*

**3. Customer Service is not sending accounts to the Collection Agency in a timely manner and in accordance with policy.**

**(Reference Page 11)**

**Recommendation:** We recommend that the Customer Service Director ensure that the department is in compliance with Section 4.51 of the Write-Off policy and Section 1 of the Utility Collection Services agreement with MSB, stated above. Customer Service needs to send all accounts that become 90 days of age, immediately to the Collection Agency, in order to increase the collection percentage. The process of transferring write off accounts to MSB should be automated so that all accounts over 90 days of age, with an outstanding balance, maybe forwarded on a daily basis.

**Management Response:** *Concur; currently the department has resources available to process this task on a monthly basis. The recent addition of a new staff member assigned to this area should result in a more frequent rate of transferring write-off accounts. We have also identified a potential process change which should further expedite the transfer of accounts to MSB. A renewed focus will be placed on this opportunity and discussions are underway to determine the feasibility of automating this process.*

**4. Customer Service does not have a monthly performance report on collection and billing.**

**(Reference Page 12)**

**Recommendation:** We recommend that the Customer Service Director should ensure that the department develops a monthly report that provides information on amounts collected and billed to track performance, evaluate collection efforts, and identify discrepancies.

**Management Response:** *Concur; currently a similar report is being provided at the end of each fiscal year. We are evaluating the possibility of modifying the report and requesting that it be processed on a monthly basis.*

**5. Customer Account Finalization process needs improvement.**

**(Reference Page 12)**

**Recommendation:** We recommend that Customer Service Director:

- Evaluates the process of assessing more utility charges to an account after an account has been finalized. Management needs to determine the most effective way to collect for these charges without extending the time period for the write-off process.
- Ensure that the customer deposit is applied to the account before the department issues final bill to the customer. Procedures related to the application of a customer's deposit to an outstanding balance should be documented in the policy.

**Management Response:** *Concur; a team has been assembled to review the entire final bill and deposit application process. This team will develop a system to ensure that write-off's are initiated as efficiently as possible. On rare occasions it may be necessary to apply charges to a final bill such as the discovery of a meter reading error or the unauthorized use of services. A daily report to identify inactive accounts that have unapplied deposits has recently been developed to identify any system errors which might occur. This will allow for a much quicker response related to any unapplied deposit identified in the future.*

**6. Absence of Statement on Auditing Standards (SAS) No.70 Audit provides no assurance that sensitive customer information is adequately protected.**

**(Reference Page 13)**

**Recommendation:** We recommend upon contract renewal that a clause be included requiring Fidelity Express to have a SAS No.70 Audit conducted. Doing so would ensure that Fidelity Express' standards of control over information technology and related processes are at least minimally compliant with guidelines developed by the American Institute of Certified Public Accountants (AICPA).

**Management Response:** *Concur; the clause will be added to the next contract.*

**7. Customer Service Department failed to renew the contract agreement with Fidelity Express following contract expiration date.**

**(Reference Page 14)**

**Recommendations:** We recommend that the Customer Service Director should ensure that the department:

- Renew the contract agreement with Fidelity Express and/or other outside parties on time.
- File the renewed contract agreement with the City Secretary's Office.

**Management Response:** *Concur; the contract was recently filed with the City Secretary's Office and the contract expiration date has been posted on our internal calendar.*

## **AUTHORIZATION**

We have conducted an audit of the Customer Service Department's Billing and Collections Process. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

## **SCOPE AND METHODOLOGY**

We conducted the audit in accordance with Generally Accepted Government Auditing Standards, with the exception that no peer review has been performed on this audit entity in the past three years. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that produces a reasonable basis for our findings and conclusions based on our audit objectives. These included procedures assessing management controls, such as reviewing segregation of duties, checks and balances, accurate utility billing, proper revenue reporting, compliance with laws, regulations, City ordinances, and professional service agreements. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objectives. Our audit covered the period from May 1, 2007 to November 30, 2008.

While we report to the Mayor and City Council and present the results of our work to the Audit Committee, we are located organizationally outside the staff or line management functions we are auditing. Therefore, this Audit organization may be considered free of organizational impairments to independence to audit internally and report objectively to those charged with governance.

The objectives of our audit were:

- Verify the Customer Service Department is in compliance with laws, regulations, and the City ordinance
- Analyze the Customer Service billing and collection process for compliance with policy and internal controls and ensure they are in place and working effectively.
- Analyze the utility billing system to determine if all active customers are included in the monthly billing cycle and ensure billings are calculated correctly
- Evaluate the reasonableness of billing to collection ratios.

To adequately address the audit objectives, we:

- Examined evidence and conducted tests related to monthly utility billing system and procedures

- Examined management controls to ensure compliance with laws, regulations, and City ordinance
- Reviewed Audit #0311 for unsettled recommendations
- Analyzed sales tax return and remittance process
- Performed reconciliation between the general ledger and cashing system, as well as the billing system
- Conducted a utility survey of Municipally Owned Utilities (MOU's) to determine standards and best practices
- Reviewed contracts with entities related to billing and collection process
- Discussed and reviewed operating procedures with management and observed meter reading operations to assess internal control deficiencies
- Interviewed appropriate personnel

### **OVERALL CONCLUSION**

The Customer Service Department for the City of Garland provides utility service to customers. This department serves a vital function for the City. They provide service to its customers from the application process through the billing process. Our audit provides opportunities to improve governance, reduce risk, improve internal control and optimize revenue.

### **BACKGROUND**

The City of Garland has owned an electric utility since 1923 which is now the third largest municipal utility in the State and the 41<sup>st</sup> largest in the nation. Garland Power & Light provides electric service to approximately 68,000 residential, commercial, and industrial customers. GP&L management and staff are active members of the American Public Power Association, Texas Public Power Association, Electric Reliability Council of Texas and other industry organizations.

The utilities Customer Service Department provides most customer related services for water, sewer, and environmental waste services. It processes approximately 84,000 utility statements each month with annual total revenue receipts of approximately \$270,000,000. The Customer Service Department facilitates all customer account transactions, meter reading, billing and collection services for all city utilities.

The Customer Information System (Banner) is the utility billing system used by the Customer Service department. Meter reading data is downloaded and uploaded to Banner from meter reading software, I-Tron, in order to begin and

complete a read cycle. Billing cycles are coordinated with 20 meter reading cycles.

All customers are required to pay a utility deposit to begin new service, unless deposit waiver requirements are met. Accounts over 90 days old from the final bill date with an outstanding balance are available for write-off status.

Accounts reaching this status that have not filed for bankruptcy, nor have any payment arrangements with the department can be submitted to the City's collection agency, Municipal Services Bureau (MSB). After 180 days, MSB may submit outstanding customer files back to the Credit Office.

Convenient payment options available for paying a utility bill include the following:

- Credit/Debit card via phone or online
- Automatic Bank Draft
- Multiple Walk-In Payment Locations
- Drive Through
- Drop Box
- Mail

## MANAGEMENT ACCOMPLISHMENTS

### *Exceeding Customer Expectations*

Customer Service employees are dedicated to exceeding customer expectations and represent the department by assisting customers an estimated 425,000 times annually in the Call Center, at the Walk-in Customer Care facility and at the drive-up window. Over the past year a renewed and ongoing emphasis was placed on employee training and development to ensure the department has well trained customer care professionals in place to meet the needs of our customers.

### *Expanding Customer Opportunities*

Recently, Garland utility customers were provided with a new self serve opportunity related to accessing personal account information via the web. This expanded web feature allows customers to view their account history, update personal account information or print a copy of their bill from the convenience of their own home or business.

### *Excel in Productivity*

The Customer Service Department completed a minor reorganization directed at providing a single point of contact for all Garland utility customers and improving overall productivity. An important facet of this organizational change was the realignment of its inbound call handling function. A new call center organization was formed and staffed. A new call center supervisor was hired along with several new call center employees. Call Center goals and expectations were developed and communicated to all employees to ensure inbound customer calls are being answered in a timely and professional manner.

### *Encourage Partnerships and Innovation*

The outsourcing of the utility bill printing and insertion process passed a significant milestone last December when the department began sending the utility bill print file to a third party for printing and mailing. This critical utility billing process change has transitioned smoothly with help and guidance from the City's Information Technology team. The project has moved into its final phase which will include minor changes to bill format and envelope type.

### *Expanding Excellence*

Garland Power & Light and the City of Garland received an Expanding Excellence Award for the implementation of the Customer Information System (CIS) which is used to manage customer accounts and utility bills.

## OPPORTUNITIES FOR IMPROVEMENT

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

### **1. The City is paying the State for sales tax on accounts that have been written off.**

Our review of the City's sales tax remittance process revealed that no adjustments are made on the sales tax return for accounts that have been written off. These accounts are over 90 days old and are submitted to the collection agency due to non-payment. Upon notification by Internal Audit, the Finance Department identified accounts for which the City has overpaid going back to the last sales tax audit performed by the State in October 2004. The Finance Department determined that approximately \$45,000 could be recovered by the City and is currently working towards requesting a refund, of sales tax overpayment, from the State.

**Recommendation:** We recommend that the Finance Department:

- Continue to pursue a credit from the State for overpayment of sales taxes, going back 4 years as the statute of limitations allows.
- Update the sales tax payment process in order to ensure that erroneous overpayments do not occur in the future.

**Management Response:** *Concur; Customer Service and the Finance Department have recently implemented process changes to address this opportunity. The Customer Service Department will provide Finance with any additional support or related information concerning sales tax refunds. Financial Services has filed amended sales tax returns and requested a refund going back four years.*

### **2. Credit card transaction fees are currently absorbed by the City, not the customer.**

Our review found that the Customer Service Department has not implemented a method of credit card payment that can assess the credit card fee to the customer. In October 2008, it was approved in the Fiscal Year 2009 budget that the cost of paying by credit card would be absorbed by the customer. The City's budget for credit card fees was approved for \$50,000. In Fiscal Year 2008, credit card fees absorbed by the City of Garland were \$535,813. From October 2008 through March 2009, credit card fees have exceeded \$357,000.

Customers have a choice of paying their utility bills with cash, check, money order, or credit/debit card. Currently, Customer Service Department absorbs all expenses associated with credit card transactions. The costs may continue to rise for the City due to the likelihood that customers may pay by credit card, as a result of lack of immediate funds. The City is unable to afford the rising costs of credit card fees. The longer it takes the Customer Service Department to implement an efficient method of processing the credit card payment, the greater the City's cost will be for Fiscal Year 2009. Customer Service projects that the fees could exceed \$700,000 in Fiscal Year 2009 and \$800,000 in year 2010.

**Recommendation:** We recommend that the Customer Service Director implement a method whereby the customer would pay the credit card transaction fee if they chose to pay by credit card.

**Management Response:** *Concur; interviews with third party credit card processing companies should be completed in June. Implementing a credit card payment system that will assess a transaction fee should be in place by mid August 2009.*

**3. Customer Service is not sending accounts to the Collection Agency in a timely manner and in accordance to policy.**

Our review of 40 accounts written off over a six month period (June 2008 – December 2008) revealed that on average, it takes 159 days to send an account to the Municipal Services Bureau (MSB), the City's collection agency. Section 4.51 of the Customer Service Write-Off policy states that "accounts over 90 days old (age is calculated from Final Bill Date) with an outstanding balance are considered available for write-off status." The Utility Collection Services Agreement with MSB, Section 1, also states that "City staff will pursue a past due account for approximately 90 days, before the account is transferred to MSB for collection" Our review compared the final bill date to the actual date that the account was sent to the collection agency.

Customer Service is currently sending write-off accounts to MSB only once a month. The process is performed manually. The date used for determining write-off status is not the final bill date rather the final due date. We believe that lack of monitoring and non-compliance with the Write-Off policy are the primary reasons for the current condition. By waiting an extended amount of time, the collection agency's chances of successfully collecting payment from delinquent customers may decrease.

**Recommendation:** We recommend that the Customer Service Director ensure that the department is in compliance with Section 4.51 of the Write-Off policy and Section 1 of the Utility Collection Services agreement with MSB, stated above. Customer Service needs to send all accounts that become 90 days of age, immediately to the Collection Agency, in order to increase the collection

percentage. The process of transferring write off accounts to MSB should be automated so that all accounts over 90 days of age, with an outstanding balance, maybe forwarded on a daily basis.

**Management Response:** *Concur; currently the department has resources available to process this task on a monthly basis. The recent addition of a new staff member assigned to this area should result in a more frequent rate of transferring write-off accounts. We have also identified a potential process change which should further expedite the transfer of accounts to MSB. A renewed focus will be placed on this opportunity and discussions are underway to determine the feasibility of automating this process.*

**4. Customer Service does not have a monthly performance report on collection and billing.**

Our review revealed that a monthly performance report reflecting the total amounts billed versus the collected from the customer, categorized by service type (electric, water, sewer and environmental waste) and/or account type (residential, commercial, intra-city, and public institution), does not currently exist. For purposes of benchmarking, evaluating collection efforts and identifying trends within the billing and collections process, a report reflecting the billing and collection ratio would be beneficial.

**Recommendation:** **We recommend** that the Customer Service Director should ensure that the department develops a monthly report that provides information on the amounts collected and billed to track performance, evaluate collection efforts, and identify discrepancies.

**Management Response:** *Concur; currently a similar report is being provided at the end of each fiscal year. We are evaluating the possibility of modifying the report and requesting that it be processed on a monthly basis.*

**5. Customer Account Finalization process needs improvement.**

In our review of 40 customer accounts, we found 2 accounts on which consumption charges were billed, following the final bill date, when the account was considered inactive. There were also 2 accounts that had generated a final bill prior to applying the customer's deposit to the delinquent balance. Service is disconnected when a final bill is sent. Currently, the system generates a new bill when there are new charges or credits assessed to the account following the final bill. The new bill that is generated indicates an updated due date on the account. The new due date is then used to calculate the 90 days to write-off status. This practice extends the timeline for a delinquent account to go to the collection agency, and allows accounts to get further behind without any action.

**Recommendation:** We recommend the Customer Service Director:

- Evaluates the process of assessing more utility charges to an account after an account has been finalized. Management needs to determine the most effective way to collect these charges without extending the time period for the write-off process.
- Ensure that the customer deposit is applied to the account before the department issues the final bill to the customer. Procedures related to the application of a customer's deposit to an outstanding balance should be documented in the policy.

**Management Response:** *Concur; a team has been assembled to review the entire final bill and deposit application process. This team will develop a system to ensure that write-off's are initiated as efficiently as possible. On rare occasions it may be necessary to apply charges to a final bill such as the discovery of a meter reading error or the unauthorized use of services. A daily report to identify inactive accounts that have unapplied deposits has recently been developed to identify any system errors which might occur. This will allow for a much quicker response related to any unapplied deposit identified in the future.*

**6. Absence of Statement on Auditing Standards (SAS) No.70 Audit provides no assurance that sensitive customer information is adequately protected.**

Fidelity Express, a third party service provider for off-site payment collections, has not had a SAS No.70 Audit performed. SAS No.70 is a widely used compliance audit for assessing the internal control framework on service organizations that provide critical outsourcing activities for other entities. Pursuant to the Federal Trade Commission's Red Flags Rule, the City of Garland has developed an Identity Theft Prevention Program to detect, prevent, and mitigate identity theft in connection with its accounts. In the absence of a SAS-70 Audit, the City has no assurance that Fidelity Express is exercising similar commitment to safeguard customers' sensitive personal information against fraud, identity theft, or other potentially damaging acts.

**Recommendation:** We recommend upon contract renewal that a clause be included requiring Fidelity Express to have a SAS No.70 Audit conducted. Doing so would ensure that Fidelity Express' standards of control over information technology and related processes are at least minimally compliant with guidelines developed by the American Institute of Certified Public Accountants (AICPA).

**Management Response:** *Concur; the clause will be added to the next contract.*

**7. Customer Service failed to renew the contract agreement with Fidelity Express following contract expiration date.**

Fidelity Express is a third party service provider that provides off-site walk-in bill pay services for the Customer Service Department. Review of the Fidelity Express contract agreement revealed that it had expired on April 16, 2007. The original contract was signed on April 16, 2004. The contract agreement states that the "initial term shall be for three years commencing upon the effective date hereof; provided however that the City shall have the right and option to extend the term by five (5) additional one-year periods by giving written notice to Fidelity Express of the City's election to so extend the term; such notice to be given not more than sixty (60) days prior to the expiration of the initial or a subsequent term." Customer Service failed to renew the agreement, therefore there was no legal binding contract in place at the time of our review. After we notified the Customer Service Department of the expired contract with Fidelity Express, action was taken to renew the contract. A certified letter of agreement was signed by the Customer Service Manager and sent to Fidelity Express. While the contract has been renewed it has not yet been filed with the City Secretary's Office.

The City Secretary Directive #5 titled "Departmental Original Documents Filing" establishes the process for filing active original contract documents that are signed by a duly authorized representative of the City of Garland and an outside party. This directive also applies to letter agreements.

**Recommendations:** We recommend that the Customer Service Director should ensure that the department:

- Renew the contract agreement with Fidelity Express and/or other outside parties on time.
- File the renewed contract agreement with the City Secretary's Office.

**Management Response:** *Concur; the contract was recently filed with the City Secretary's Office and the contract expiration date has been posted on our internal calendar.*