

# CITY OF LAWRENCE

## Commissioner's Meeting



December 19, 2017

# PHASE 1

Rapid Assessment

# Project Overview

## Project Scope

RSM was tasked to perform a Rapid Assessment of the Miscellaneous Billing and related Cash Application process.

- The assessment included an evaluation of documentation and on-site interviews with departmental employees.
- The goal of the assessment was to document procedural gaps, risks and control weaknesses.
- To attempt to determine the root cause of the missed Riverfront billings.
- And to quickly determine through data analysis and trending the possibility of other missed billings and/or inconsistencies in the data.
- The City would then determine if a deeper analysis is required.

## Executive Summary

Based on the data trends, the interviews and the available documentation the errors center around the following issues:

**Data Conversion:** It appears many of the issues occurred when converting from the old application to Innoprise. Billings that were not consistent each month were not necessarily added to the system. Additionally, prior to the current Finance Director payments were often made “Over the Counter”, therefore not applied to the customer’s account. For example, a Franchise payment based on 5% of revenue arrived, rather than applying to XYZ Company, it was batch processed. The only way to trace this receipt is to manually “look through the boxes” of checks/counter slips.

**Lack of Communication:** The Billing team is not necessarily aware of when or what they should be billing. The City Attorney provided a lease extract during the visit, it was the first the biller had seen it. It is a great starting point to reconcile billing. When notified of one-off bills they are often emailed directly to people in lieu of a generic email, when jobs are transferred the emails may be lost.

**Lack of Training:** Users are not aware of ways to set-up non-cycle bills in the system, or to create needed control reporting.

**Lack of Controls:** An Administrative Support II associate was solely responsible for the miscellaneous billing. He allocated 1 day a week to this task, operated in a largely manual environment with little oversight, few controls and no written procedures.

**Lack of Tools:** Today off-cycle billings are largely tracked in individual’s Outlook calendar when jobs are transferred the “billing schedule” is not necessarily forwarded. The system has limitations, lack of workflow, controls and reporting that create workarounds.

# Recommendations Summary

We grouped opportunities that are smaller in scope and address tactical issues into “Quick Wins”. Transitional and strategic recommendations should also be addressed in the coming months.

Phase	Low	Medium	High
<b>Quick Wins</b> (0-90-days)	<ul style="list-style-type: none"> <li>• Provide further training to the billing team regarding the treatment of unique / off-cycle billing items</li> <li>• Continue to emphasize online portal via statement pamphlets</li> <li>• Contact Dev. Services to provide single file containing all permits</li> <li>• Continue to encourage electronic statement delivery</li> <li>• Implement Dual Control in all cash handling (PO Boxes &amp; Drop Boxes)</li> </ul>	<ul style="list-style-type: none"> <li>• Develop an accounts receivable monthly reconciliation process</li> <li>• Develop procedures implementing double checks on manually keyed entries</li> <li>• Change Innoprise system settings to stop running \$0.00 invoices for clients who are paid in full</li> <li>• Create a checklist for the cycle 96 leases</li> <li>• Establish generic email address / online form to request bill creation</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a comprehensive list of leases and franchise agreements</li> <li>• Determine current accounts receivable balances by customer and tie to the general ledger</li> <li>• Determine an overall control point where all agreements must be approved and then added to the master list for the billing team to administer</li> <li>• Review the identified lease variances (see appendix A &amp; C)</li> </ul>
<b>Transitional Initiatives</b> (90-180-days)	<ul style="list-style-type: none"> <li>• Formalize billing policies and procedures.</li> <li>• Determine and implement a clear responsibilities matrix for the billing team.</li> <li>• Develop and implement a lease renewal policy and procedures.</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluate the sales tax calculations for city provided services</li> <li>• Evaluate city-county cost sharing agreements and execution of said agreements</li> <li>• Replace Outlook as the billing schedule / reminder system</li> </ul>	<ul style="list-style-type: none"> <li>• Document and standardize lease/franchise agreement workflow and administration.</li> </ul>
<b>Strategic Initiatives</b> (Future or longer term projects)	<ul style="list-style-type: none"> <li>• Evaluate the potential efficiencies created by implementing Remote Deposit Capture</li> <li>• Evaluate Lockboxes in lieu of PO Boxes</li> </ul>	<ul style="list-style-type: none"> <li>• Billing system upgrade</li> <li>• Implement monthly Balance Sheet reconciliation process</li> </ul>	

# DATA REVIEW

# Lease Extracts Overview

Utilized the below process to review leases:

- Utilized the lease extract from the City Attorney's office has provided as the comprehensive listing
- Extracted Miscellaneous Billing and Payment data from "HTE " and Innoprise for the periods of January 2000 – April 2017
- In the cases in which the balances do not match, a summary is provided for review.
  - This excludes items where specific payments likely have been taken "over the counter" and the system shows the customer is in good standing
  - A sample of an Over the Counter payment is included for review
- Additionally, "other items" mentioned in the course of our interviews that do not appear in the system or provided listing are included.

# Leases Reviewed

## Leases without billings or payments

- CIP II/BCL
- LDCBA
- LWC Partners \$10,585/Year
- University of Kansas Athletics, Inc. \$1/Year
- Shelter, Inc \$100/Month
- AT&T
- New Cingular Wireless, LLC
- Sprint
- T-Mobile
- Verizon

## Follow-up

- Hetrick Aircraft, Inc. – confirm value not on lease
- Kitsmiller – billed for 40 & 56 acres only 56 acres on attorney extract listing
- Lawrence Arts Center - repayment
- Dailey Angus Farms LLP – verify corn vs soy beans to confirm billing
- Nunemaker-Ross, Inc.- confirm \$100 lease is billed, \$65/32 acres, appears in 2012-2016 billing \$65/96 acres and \$65/20 acres in 2013-2016

## Other Items

- Revenue based agreements are not billed due to lack of data, verify payments are received
- City & County Cost Share Agreement
- Here Apartments \$100k
- Grey Hound Bus Parking Spaces

# Trending Data Overview

As we were unable to obtain a full listing of the City's anticipated miscellaneous billings an analysis of the data was performed

The intent is to identify customers that have unusual billing/payment patterns based on trending data to narrow the scope of contract review

*Example: XYZ Co. Received an annual bill 2010-2013, then no further billing. Maybe they dropped their lease or left the city which is fine, maybe we quit billing them. This customer would be flagged for review.*

## Process

- Extracted Miscellaneous Billing and Payment data from "HTE " and Innoprise for the periods of January 2000 – April 2017
- Excluded bills related to Sanitation, Permits, Taxes
- Retained bills related to Leases, Land and Franchises (Codes: F4, BLDG, BUILD, LAND, LANDL, LEASE, LND, LSE, PL, PK, RW, R40, R4, R51)
- Trending data was reviewed for:
  - Large changes in balances month to month, year to year
  - Billing or Payment Stop/Starts

Including for review does not necessarily indicate there is an issue



# Next Steps

To calculate the unbilled receivables we suggested the following multi-pronged approach:

## **Survey: Verified all City properties are billed appropriately**

- Developed a short survey, to be sent to the Department/Division Directors and/or their designate to identify any properties they are responsible for leasing/franchising
- Sent Survey and request response within 5-7 days
- Followed-up with any missing Department/Divisions
- Accumulated the data and send to the City Manager, City Attorney and Directors for their review to confirm completeness
- As surveys are returned, review billings/payments for completeness, update variance summary and “City Property” list, as appropriate

## **Review: Assessments lease/data trend questions**

- Reviewed the leases that appear to vary from the City Attorney’s extract, determine the correct value to be billed and summarize the variances, update the “City Property” list, as appropriate
- Reviewed the revenue based agreements for payments, if not as expected, work with City Attorney to contact the customers, to determine the outstanding balance
- Due to the historic practice of applying checks in batch, pulling paper records will most likely be required, alternatively customers could be contacted to confirm payments on a limited basis
- Reviewed the trending data to confirm if appropriate; summarize the variances and update the “City Property” list, as appropriate

# PHASE 2

Detailed Review

# Review: Assessments lease/data trend

The City's billing team, reviewed the items identified in the assessment as needing additional review.

Overall these items were found to be paid appropriately, variances appear to be due to the following:

- Name variances between the lease extract and MAR, some accounts were merged with parent accounts, or purchased over time
- Projects were cancelled, therefore not billed/collected
- Extract included contract detail for items not actually related to accounts receivable
- Updates to the rates based on annual increases, approved by appropriate parties
- Normal customer turnover

# Results: Survey Responses

## Survey Issuance

June 26<sup>th</sup> the survey was issued to 47 staff members, requesting assistance in gathering information related to any non-utility related billing. All departments responded to the survey.

## Survey Responses

- 102 Contractual Billing items (e.g. Properties, Franchises, Development & Economic Agreements)
- 31 Non-Contractual billing items
  - Items calculated based on usage, and provided by the Department
  - e.g. Fire & Medical, Retiree Medical Billings, Hydrant & Inspection Fees
- 51 Items unrelated to Miscellaneous Billing and/or completed/expired contracts

## Survey Data Review

The master list of all received contracts was finalized including: term, billing amounts, renewal options and expiration dates.

- The City's billing team compared the data to the Miscellaneous Accounts Receivable (MAR) billing system, all variances were reviewed and verified with the appropriate Department Directors.
- Any changes to the billing terms, annual increases etc. were noted in the master list, if variances existed MAR was updated appropriately.
- The compiled list was sent to the survey participants for review and comments to collect any remaining items.
- All survey participants/departments have reviewed and confirmed the listing is complete as of this date.

## Survey Follow-up Actions

- Variance billings and explanatory letters were sent to impacted customers
- Updates to MAR records are completed
- Developed Miscellaneous Billing policies and procedures, including corrective actions described in the Rapid Assessment and found through the Master List update process

# Results

## Financial Results

Billing Variances total \$690,045, impacting 23 customers including:

- Building leases \$2,006
- Hangar rents \$4,008
- Land Leases \$256,096
- Douglas County \$427,935

100% has been billed, 99.9% or \$689,108 has been collected as of the current date

## Douglas County

Douglas County was not discovered per the survey as it was not included in the responses.

- As there is no centralized contract location nor approval process, it was determined a survey/review would be utilized to accumulate the data.
- The survey data was consolidated and provided to the departmental leaders for review/approval.
- Finance Team completed extensive follow-up with departmental leaders to verify and collect missing data elements.

## Property Tax Reimbursements

Earlier this month, Finance Staff was in the process of reviewing property tax bills for City owned properties with private uses located on them. The City bills tenants for reimbursement for some of the real estate taxes. The Finance Director asked the City Attorney's office to review the real estate tax reimbursement billings and confirm their accuracy. The review revealed there were some property tax reimbursements that were not set up to be billed correctly.

The City Attorney's office is now reviewing all land lease agreements to determine what, if any, other property tax reimbursements have not been billed correctly.

# Recommendations Summary

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Items completed

## Ongoing Concerns

- Consider an overall control point where all agreements must be approved and then added to the master list for the billing team to administer.
- Consider having the City Attorney provide an extract for each of the contracts on an ongoing basis.
- Continuing discussion and future consideration of fiber, cell tower rentals, and private utilities franchise audits is in process.
- Due to limitations within the MAR billing system, Billing is not able to implement all of the suggestions from the assessment. A few examples: workflows, approval automation, audits and automated reconciliations.
- MAR billing system reports can be difficult for users to interrupt.
- Maintaining billing processes is a continuous improvement activity. There will continue to be findings as additional information comes to light. The new miscellaneous billing processes add controls, have been implemented and will need to be optimized over time.

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