



CITY AUDITOR'S OFFICE

# Revenue Recovery

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September 3, 2019

AUDIT REPORT NO. 1911

**CITY COUNCIL**

Mayor W.J. "Jim" Lane

Suzanne Klapp

Virginia Korte

Kathy Littlefield

Vice Mayor Linda Milhaven

Guy Phillips

Solange Whitehead





September 3, 2019

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Revenue Recovery*, which was included on the City Council-approved fiscal year (FY) 2018/19 Audit Plan. This audit was conducted to assess the effectiveness of Business Services' revenue recovery services.

The audit found that Revenue Recovery is not effectively identifying or collecting delinquent accounts. For example, an accounts receivable aging analysis is not used, and documented collection efforts were inconsistent and often untimely. As well, program management and oversight could be improved, including effective collection and activity data tracking.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in black ink that reads "Sharron Walker". The signature is written in a cursive, flowing style.

Sharron E. Walker, CPA, CFE, CLEA  
City Auditor

Audit Team:

Cathleen Davis, CFE, CIA – Senior Auditor  
Brad Hubert, CIA, CGAP – Senior Auditor



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# AUDIT HIGHLIGHTS

## Revenue Recovery

September 3, 2019

Audit Report No. 1911

### WHY WE DID THIS AUDIT

This audit was included on the Council-approved FY 2018/19 Audit Plan to assess the effectiveness of Business Services' revenue recovery services.

### BACKGROUND

Within the City Treasurer's Business Services department, the Revenue Recovery section is responsible for collecting delinquent receivables owed to the City. These receivables include utility accounts; business, liquor and special license fees; false alarm charges; and accounts referred by other City departments.

As of June 2019, Revenue Recovery was responsible for approximately 6,700 accounts totaling about \$3.5 million.

Additionally, Revenue Recovery, Tax Audit and the City Attorney's office have created the Revenue Enhancement Team to collect the larger delinquent accounts once Revenue Recovery has exhausted its efforts.

### City Auditor's Office

City Auditor 480 312-7867  
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### WHAT WE FOUND

**Revenue Recovery is not effectively identifying or collecting delinquent accounts.**

Collection efforts could be improved by using accounts receivable aging reports, developing complete and organized policies and procedures, and evaluating its collection tools. Specifically, we found:

- Past-due accounts were not contacted timely, documented collection efforts were inconsistent and account write-offs were not performed in accordance with City accounting policy.
- Policies and procedures were not available for many activities.
- Revenue Recovery does not evaluate or use all available collection tools.

**Revenue recovery program management and oversight could be improved.**

- Enhanced tracking of collection data could help improve effectiveness, reporting and management.
- Establishing and sharing a policy for site visit practices could enhance revenue collector and public protection.
- Differentiating between payments received after revenue collector contacts and those received after auto-generated phone calls or letters would help to measure effectiveness of methods used.
- Accurately tracking collectors' daily activities and participating in a professional collection organization may improve effectiveness and provide best practices, training and professional development.

### WHAT WE RECOMMEND

We recommend the Business Services department require Revenue Recovery to:

- Develop and use aging reports to prioritize collection activities.
- Ensure that uncollectible account write-offs are performed in accordance with Accounting policies.
- Develop complete and organized policies and procedures.
- Improve tracking and analysis of collections-related activity and results.

### MANAGEMENT RESPONSE

The department agreed with the recommendations, including using monthly accounts receivable aging reports to prioritize collections and developing a mechanism to track collection activity and its adherence to priorities and procedures.





**BACKGROUND**

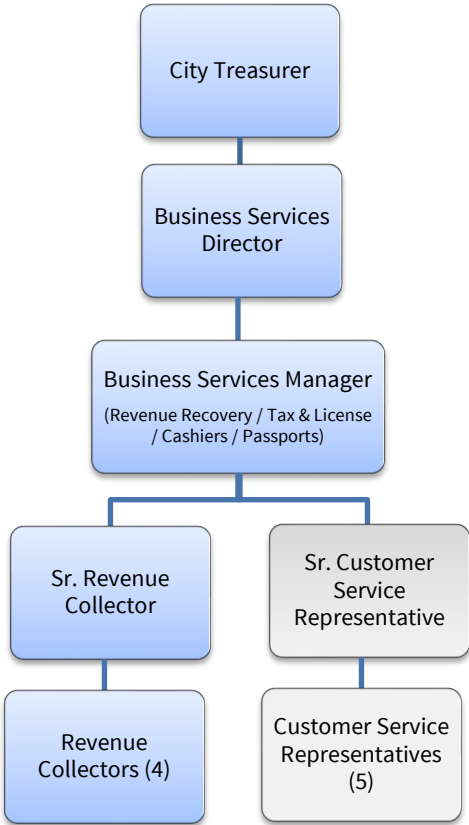
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Within the City Treasurer’s Business Services department, the Revenue Recovery section is responsible for collecting delinquent receivables owed to the City. These receivables include utility accounts; business, liquor and special license fees; false alarm charges; and accounts referred by other City departments. Revenue Recovery also assists the state Department of Revenue in researching delinquent transaction privilege tax (TPT) owed to the City.

As shown in Figure 1, Revenue Recovery currently consists of six staff members: a manager, a senior revenue collector and four revenue collectors. The manager also oversees tax and license, cashiering and passport services.

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**Figure 1. Revenue Recovery Organization Chart**



SOURCE: Auditor analysis of department’s organization chart.

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Over the past five years, Revenue Recovery’s direct costs have ranged from \$707,000 to \$783,000 per year, with 93% composed of personnel costs. Without specialized research tools to track businesses or

residents who owe taxes or fees, the revenue collectors rely on free Internet resources. While the Revenue Recovery staff does not work evening or weekend hours, they can schedule auto-dialer phone calls to be placed until 8:00 p.m., and the City’s automated phone system and website are available 24-hours a day to accept payments.

### Delinquent Receivables

City utilities, including water, sewer, stormwater management, and solid waste collection, are billed monthly. If payments are not made within 30 days, late fees are assessed and a 10-day disconnect letter is automatically sent at 45 days. Utility Billing also uses an auto dialer to reach customers with delinquent accounts. Revenue Recovery is responsible for collecting an account after it becomes 60 days overdue. Revenue Recovery also collects business license and registration fees and alarm charges when they become 60 days overdue as well as delinquent accounts referred by other departments.

Revenue collectors attempt to collect debts by contacting the debtor via phone, email or letter and arranging for payments. They also make site visits if necessary. If the customer cannot be contacted, Revenue Recovery can disconnect or suspend utility services and place liens on property. However, the Business Services Manager stated that they do not disconnect delinquent commercial accounts.

For overdue business licenses, Revenue Recovery can cancel the license if not paid within 120 days past its due date or if the licensee is no longer at the listed address. Revenue Recovery also indicated that they may refer accounts more than 180 days past due to an outside collection agency.

Previously, Revenue Recovery was also responsible for collecting the City’s delinquent TPT. However, since the State began administering and collecting TPT in January 2017, that responsibility has been reduced. Revenue Recovery is still working to collect delinquent TPT and license balances due from before 2017, but these accounts are dwindling in number as they reach the six-year statute of limitations for collection. As shown below, based on information provided by Tax Audit, the amount of TPT and license receivables that the City is responsible for collecting each year has decreased by more than \$12 million since FY 2015/16.

Fiscal Year	Total TPT & License Receivables	TPT & License Receivables Collected by City	TPT Receivables Collected by State
FY 2015/16	\$16,185,797	\$16,169,777	\$16,020
FY 2016/17	\$13,453,214	\$4,948,842	\$8,504,372
FY 2017/18	\$15,880,956	\$4,049,038	\$11,831,918

The department does not maintain aging reports for its accounts, but Table 1 on page 5 summarizes the delinquent accounts that auditors identified for which Revenue Recovery was responsible as of end of June 2019.

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**Table 1. Delinquent Accounts 60 or More Days Past Due, by Age**

	<b>Tax &amp; License</b>	<b>Utility Billing</b>	<b>Other Department Referrals <sup>1</sup></b>
<b>60-90 days</b>			
Total Accounts	2	102	6
Amounts Past Due	\$68	\$8,079	\$28,242
<b>90-120 days</b>			
Total Accounts	0	70	5
Amounts Past Due	\$0	\$8,124	\$7,265
<b>120 or more days</b>			
Total Accounts	6,366	190	8
Amounts Past Due	\$3,327,340	\$195,138	\$10,346
<b>Total Accounts 60+ Days Past Due</b>	<b>6,368</b>	<b>362</b>	<b>19</b>
<b>Total Amounts 60+ Days Past Due</b>	<b>\$3,327,408</b>	<b>\$211,341</b>	<b>\$45,853</b>

<sup>1</sup> For these accounts, the aging is based on the date that the account was referred to Revenue Recovery.

**SOURCE:** Auditor analysis of Northstar, GenTax and Revenue Recovery reports as of the end of June 2019.

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Since August 2018, Revenue Recovery has been sending revenue collectors to the Arizona Department of Revenue (ADOR) office in downtown Phoenix to research City TPT and license accounts. From August to December, revenue collectors logged about 100 training hours at ADOR, and from January through June, they recorded 89 hours researching accounts. According to the Business Services Manager, the collectors have limited access to the State system and can only work on the accounts ADOR provides during each visit. She further reported that Revenue Recovery does not know what amount of collections are related to this work.

The Business Services Manager noted that revenue collectors may also make site visits to businesses if a staff member sees a business operating that was reported as closed.

Revenue Recovery, Tax Audit and the City Attorney's office have created the Revenue Enhancement Team to collect larger account balances once Revenue Recovery has exhausted its efforts. Inclusion of the City Attorney's office allows the team to issue attorney-demand letters, file civil lawsuits or seek criminal prosecution of delinquent taxpayers. The team is also able to negotiate payment plans and settlements for the accounts. While most accounts come from Tax and License, the team has also assisted with WestWorld account collections. During the past four years, the team has collected more than \$580,000 in outstanding accounts, as shown in Table 2 on page 6.

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**Table 2. Revenue Enhancement Team Collections 2016 - 2019**

<b>Calendar Year</b>	<b>Amount Collected</b>
2016	\$89,561
2017	\$290,135
2018	\$93,627
2019*	\$106,870
<b>Total</b>	<b>\$580,193</b>

\* Collections through June 30, 2019.

**SOURCE:** Auditor analysis of Revenue Recovery records for Revenue Enhancement Team accounts.

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## OBJECTIVES, SCOPE, AND METHODOLOGY

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An audit of *Revenue Recovery* was included on the City Council-approved fiscal year (FY) 2018/19 Audit Plan. The audit objective was to assess the effectiveness of Business Services' revenue recovery services.

The audit focused primarily on revenue recovery services and delinquent accounts for fiscal year 2018/19, including analysis of the current and prior fiscal years where relevant to evaluate trends.

To prepare for this audit, we reviewed related audit reports previously issued by this office, including Audit No. 1410, *Accounts Receivable Management*, and Audit No. 0906, *Collection of Delinquent Funds*. We also reviewed related audit reports recently completed by other auditors. In addition, we reviewed:

- Federal Fair Debt Collection Practices Act
- Arizona Revised Statute § 42-1122 (B) *Setoff for debts to state agencies, political subdivisions and courts; revolving fund; definitions*
- Scottsdale Revised Code sections relevant to account collection in:
  - Chapter 24, *Solid Waste Management*
  - Chapter 49, *Water, Sewers and Sewage Disposal*
  - Appendix C *Privilege and Excise Tax*
- City of Scottsdale Comprehensive Adopted Financial Policies
- Administrative Regulation (AR) 269 *Miscellaneous Accounts Receivable*
- Contract No. 19SW028 for collection of delinquent accounts

To gain an understanding of Business Services' Revenue Recovery section, we reviewed information available on the City's website, budget books and accounts receivable-related information in the Comprehensive Annual Financial Report (CAFR). We also reviewed Revenue Recovery's available policies and procedures, job descriptions and activity logs.

To further understand policies, procedures and available data, we interviewed the Business Services Director, two Business Services Managers, the Senior Revenue Collector, a Senior Tax Auditor and City Treasurer Office's system integrators who support the related systems. In addition, we interviewed the City of Glendale's Revenue Recovery Manager.

To assess the effectiveness of Business Services' Revenue Recovery section, we:

- Evaluated available data for collection activity, reporting and performance measures. This included reviewing receivables information reported in the City's FY 2017/18 CAFR to identify the account types and estimate amounts for which Revenue Recovery has responsibilities.
- Evaluated Revenue Recovery activities for collecting delinquent utility accounts. To accomplish this, we summarized NorthStar data in an accounts receivable aging to determine the number, amount and age of delinquent accounts. We then reviewed all utility accounts more than 120 days delinquent with balances over \$5,000 and all accounts between 60 and 120 days overdue with balances over \$250 to determine Revenue Recovery's collection efforts. We also reviewed a random sample of utility account write-offs in the prior completed fiscal year, FY 2017/18, to determine what collection activity occurred prior to write-off.

- Evaluated Revenue Recovery activities for collecting delinquent transaction privilege tax, business and liquor license, and alarm permit accounts. To accomplish this, we summarized GenTax data in an accounts receivable aging and selected both random and judgmental types of account samples for analysis. We reviewed collection activity-related notes on the various sampled accounts to identify the type, frequency and pattern of collection activity for delinquent tax and license accounts. We also reviewed a random sample of tax and license account write-offs in FY 2017/18 to determine what collection activity occurred prior to write-off.
- Evaluated Revenue Recovery's efforts on delinquent accounts that other City departments have referred for collection. To accomplish this, we interviewed the Senior Revenue Collector; reviewed the available spreadsheet inventory of other department delinquent account referrals; and reviewed the Revenue Enhancement Team procedures and spreadsheet inventory.
- Evaluated the effectiveness of Revenue Recovery's role in the City's annual fiscal year-end write-off process.
- Reviewed Revenue Recovery's use of the third-party collection agreement.

Our audit found that Revenue Recovery is not effective at identifying or collecting the City's delinquent accounts. Further, revenue recovery program management and oversight could be improved.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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. Audit work took place from April to August 2019.

## FINDINGS AND ANALYSIS

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### 1. Revenue Recovery is not effectively identifying or collecting delinquent accounts.

Using an accounts receivable aging analysis could improve efforts to effectively collect the City's delinquent utility, tax and license accounts and delinquent accounts referred from other departments. Further, Revenue Recovery does not have complete or organized policies, procedures and workflows and does not use the state's debt set-off program.

A. Revenue Recovery does not use an aging report to identify its delinquent utility accounts, does not contact customers timely, is not consistently making collection efforts before beginning the write-off process and does not evaluate the results of the outside collection agency to determine the effectiveness of the process.

1. While the utility billing system creates an "aging report", the report is not used by Revenue Recovery as a tool to target collection efforts. Overall, the report would not reflect total delinquent accounts because it also includes accounts with credit balances. However, the Business Services Manager indicated that it is not used because payments are received daily so the account balances would be constantly changing. As a result, collection efforts appear somewhat sporadic rather than focused on account balances and age.

Based on our aging analysis, only 362 of the approximately 6,800 utility accounts had amounts that were more than 60 days past due. Further, 9 of the 362 accounts were more than 120 days past due and had balances over \$5,000 each, while 11 accounts between 60 and 120 days past due had balances of more than \$250 each. The other delinquent accounts in these aging categories had smaller balances due.

In reviewing these 20 accounts, we did not find documentation of timely efforts to collect past-due amounts. As shown in Table 3 on page 10, only 10 of these accounts had documented Revenue Recovery collection contacts, and for those, the initial contact was an average of 2.3 years after the account was 60 days past due. There are no notes in the utility billing system indicating that revenue collectors have attempted to contact the other 10 accounts. Additionally, while 11 of the 20 past-due accounts have been disconnected, 9 continue to receive service, including 4 that have not paid on their accounts for more than 10 years. Of these 9 active accounts, one receives sewer service only, but the other 8 accounts receive water and/or solid waste services that could be suspended for non-payment.

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**Table 3. Collection Activity for Sampled Accounts 60 Days or More Past Due**

Sample No.	Amount Due	Date Account Overdue	Time Before First Contact	Number of Contact Attempts	Current Status	Lien Filed
1	\$ 15,209	May 2013	2 months	2	Active	Yes
2	\$ 12,945	July 2009 <sup>b</sup>	7.18 years	1	Active	No
3	\$ 10,982	May 2009 <sup>b</sup>	unknown <sup>c</sup>	7	Active	Yes
4	\$ 8,658	March 2009 <sup>b</sup>	unknown <sup>c</sup>	1	Active	Yes
5	\$ 7,338	Nov 2012	4 months	2	Active	Yes
6	\$ 5,763	Dec 2009 <sup>b</sup>	6 months	2	Active	Yes
7	\$ 5,614	July 2009 <sup>b</sup>		0	Active	No
8	\$ 2,848 <sup>a</sup>	June 2019	26 days	3	Active	No
9	\$ 565 <sup>a</sup>	June 2019		0	Active	No
10	\$ 37,699	July 2009 <sup>b</sup>	9.13 years	5	Disconnected	Yes
11	\$ 7,591	May 2012	11 months	3	Disconnected	Yes
12	\$ 1,038	May 2019		0	Disconnected	No
13	\$ 697	June 2019		0	Disconnected	No
14	\$ 965	June 2019		0	Disconnected	No
15	\$ 317	May 2019		0	Disconnected	No
16	\$ 481	June 2019		0	Disconnected	No
17	\$ 745	June 2019		0	Disconnected	No
18	\$ 208	March 2019	4 months	1	Disconnected	No
19	\$ 606	May 2019		0	Disconnected	No
20	\$ 271	June 2019		0	Disconnected	No
<b>Total</b>	<b>\$120,540</b>					

<sup>a</sup> These accounts were paid after our sample selection. Sample account 8 paid after a Revenue Recovery contact; account 9 was customer-initiated after the automated disconnect notice.

<sup>b</sup> Late fees were already being charged so they are older than these dates, but system records are only available since 2009.

<sup>c</sup> Lien filing date is prior to available system billing records.

**SOURCE:** Auditor analysis of Northstar utility billing records.

- Revenue Recovery has not documented efforts to collect delinquent accounts before writing off the amounts due. In fiscal year 2017/18, Revenue Recovery wrote off 754 accounts totaling \$162,900. We randomly selected 5 written-off accounts for review; revenue collectors made no documented attempts to collect these 5 accounts totaling \$1,161 before the write-offs occurred.



Administrative Regulation (AR) 269 *Miscellaneous Accounts Receivable* requires collection efforts to continue until the receivable is paid or considered uncollectible and defines uncollectible accounts as those that City staff do not expect will be paid after all reasonable collection efforts have been exhausted.

3. Revenue Recovery contracts with an external collection agency to which it refers some delinquent accounts over \$50. By contract, the collection agency is required to provide a monthly report of all collections and it receives 17% of amounts recovered. However, Revenue Recovery does not refer many types of delinquent accounts nor does it review the agency's collection results on an annual basis to determine the effectiveness of this process.

In the past, Revenue Recovery sent transaction privilege taxes (TPT), use taxes, and alarm fees for collection. Revenue Recovery currently only sends delinquent utility accounts and some miscellaneous accounts receivable to the collection agency.

During the past three years, the City has sent approximately \$593,000 in past-due accounts to the collection agency. During this time, the agency has collected approximately \$79,775 with the City receiving just over \$66,200 for a 11% net recovery on referred accounts. Additionally, another local jurisdiction requires the delinquent customer to pay the collection agency fee in addition to the overdue amount. An agreement with the current collection agency has been in place since at least 1993 and is renewed annually with no indication that the contract has been opened to other bidders to see what terms may be offered.

- B. Revenue Recovery is not effectively collecting City tax and license delinquent accounts.

Revenue Recovery also does not use an accounts receivable aging report as a management or collection tool for delinquent tax and license accounts. Also, documented collection activity generally did not appear to occur timely or proportionate to the delinquent balance. Further, uncollectible tax and license receivables were not written off in accordance with Accounting department procedures.

1. In January 2017, as part of TPT reform, the Arizona Department of Revenue (ADOR) assumed administration and collection of the City's TPT taxes, including collection of all subsequent TPT liabilities. Prior to TPT reform, Revenue Recovery staff performed the City's TPT collections activity. Since then, Revenue Recovery can only independently pursue those TPT liabilities that had already been assessed.<sup>1</sup>

Therefore, while Revenue Recovery is still responsible for collecting delinquent City license accounts, collection activity for delinquent tax accounts is limited to taxes owed to the City for periods prior to calendar year 2017.

As shown in Table 4 on page 12, approximately 6,400 tax and license accounts, totaling \$3.3 million, were delinquent as of June 2019. More than \$2.2 million of this total, or 69%, is estimated to be 6 years or more past due. Scottsdale Revised Code Appendix C *Privilege and Excise Tax* provides that collection efforts may be made within 6 years after the assessment

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<sup>1</sup> Revenue Recovery also participates in an ADOR project that started in the spring of 2018. City collectors can work onsite at ADOR to help collect more recent TPT liabilities, including cases that consist of Scottsdale-only amounts or Scottsdale and state amounts.

of tax.<sup>2</sup> Therefore, Revenue Recovery may only be able to perform collection activities on about \$1.1 million of these delinquent balances.

**Table 4. Tax and License Aging, June 2019**

Age	Number of Accounts <sup>1</sup>	Total Amount Due	Percentage of Delinquent Amount Due
0 to 30 days <sup>2</sup>	549	\$71,756	n/a
30 to 60 days <sup>2</sup>	1	\$406	n/a
60 to 90 days	2	\$68	0.0%
90 to 120 days	0	\$0	0.0%
120 to 150 days	4	\$626	0.0%
150 to 180 days	324	\$61,950	1.9%
180 days to 1 year	4	\$1,584	0.0%
1 to 2 years	66	\$16,328	0.5%
2 to 3 years	2,920	\$133,875	4.0%
3 to 4 years	745	\$259,546	7.8%
4 to 5 years	477	\$370,046	11.1%
5 to 6 years	360	\$200,961	6.0%
6 to 7 years	321	\$241,998	7.3%
7 years or more	1,145	\$2,040,426	61.3%
<b>Total</b>	<b>6,918</b>	<b>\$3,399,570</b>	
<b>60 or More Days Past Due</b>	<b>6,368</b>	<b>\$3,327,408</b>	<b>100%</b>

<sup>1</sup> Total number of accounts includes active and inactive tax and license accounts.

<sup>2</sup> Tax and license accounts generally become delinquent after 60 days.

Note: Total amount due for each account was aged based on the earliest delinquent period. In August 2019, Revenue Recovery has subsequently identified 1,512 tax and license accounts totaling \$1,689,996 for write-off.

SOURCE: Auditor analysis of GenTax data.

Of the 4,900 accounts that are less than 6 years delinquent, 400 are two years or less overdue and would generally have a higher probability for collection.

2. Instead of using an accounts receivable aging report for delinquent tax and license accounts, Revenue Recovery assigns an alphabetical series of the accounts to each revenue collector who then documents collection activities in notes on the individual accounts. To

<sup>2</sup> Under Scottsdale Revised Code Appendix C, *Privilege and Excise Tax*, Collection efforts may be made at any time for tax collection based on a tax lien perfected, recorded or possessed by the City.

evaluate the consistency of collection efforts, we selected a random sample of 26 delinquent tax and license accounts.<sup>3</sup> Documented collection activities were inconsistent:

- No collection activity was documented on 5 of the 26 tested delinquent accounts.
- The 21 accounts with documented collection activity averaged 16 collection-related notes. However, the activity ranged from as few as 1 to as many as 54 notes per account.
- On average, an account was 2.16 years overdue before collection-related notes were documented. Collection notes were first recorded as late as 8 years after an account became overdue.

Table 5, summarizing collection-related notes for 10 of the 26 tested delinquent tax and license accounts, shows that the occurrence, volume and frequency of collection activity does not appear timely or based on the account value. For example, an account with a current balance of \$576 (sample item no. 8) had collection activity noted on 54 days, while an account with a current balance of \$55,600 (sample item no. 3) had collection activity noted on only 4 days.

**Table 5. Collection Activity on Sampled Delinquent Tax and License Accounts**

Sample No.	Account Type	Balance	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
1	Tax	\$83,454											3		2	2	7
2	Tax	\$76,945						8	7	5	1						21
3	Tax	\$55,580				1		2	1								4
4	Tax	\$42,797							1	5	8	4	2				20
5	Tax	\$26,448								4				1	3	3	11
6	Tax	\$789									2		2	3	6		13
7	Liquor	\$660															0
8	Tax	\$576											36	15	2	1	54
9	Liquor	\$500															0
10	Tax	\$28	1														1

Note: Grayed out periods are prior to the sample item’s earliest delinquent year.

SOURCE: Auditor’s analysis of GenTax data.

<sup>3</sup> Based on the collection-related notes in the tax and license system, it was not readily apparent which accounts, if any, received payments related to collection-related activity.

As further illustration of inconsistent collection activity:

- In September 2016, a taxpayer communicated that unfiled returns would be faxed in. Though the returns were not received, the next collector note was in June 2018 recording that a letter was sent to the taxpayer. After a collector phone call in December 2018, the taxpayer filed the returns in January 2019.
- In September 2016, due to the City's filed lien, a title company contacted Revenue Recovery requesting the payoff for a delinquent tax account. Collector notes indicate that because the taxpayer had 2 unfiled returns for calendar year 2013, Revenue Recovery responded it was unable to provide a payoff amount. No monies were received, and this account was subsequently written off in FY 2018/19 after the statute of limitations expired.

Further, the documented collection activities did not correlate with collection activity workflows provided by Revenue Recovery management.

3. Rather than writing off uncollectible tax and license accounts in accordance with Accounting department specified criteria, Revenue Recovery has used a city financial policy as its maximum limit.

Accounting's write-off procedures explain that a receivable should be written off when all collections efforts have been exhausted and there is no reasonable expectation that payment will be received. Further, the procedures specify that the annual write-off process should include accounts that have not received a payment in 180 days or more unless certain exceptions are met. A department can provide written justification for not writing off an account if the department is currently negotiating or has payment arrangements made or if the department has another reason to believe the account will be paid within the next 30 to 60 days. These procedures also explain that writing off the receivable does not mean the money is no longer owed to the City; it can still be collected.

Revenue Recovery does not analyze all delinquent tax and license accounts that have not received payment within 180 days or more to determine which should be deemed uncollectible. Instead, Revenue Recovery's practice has been to write off delinquent tax and license account balances up to one-half of one percent of the related tax and license revenue. This percentage is stated in the City's Comprehensive Adopted Financial Policies as an administrative limit for overall City write-offs with additional amounts subject to Council approval.<sup>4</sup> However, using this policy as a write-off maximum, rather than a goal could artificially understate the uncollectible portion of delinquent tax and license receivables. Because the City's fiscal year-end allowance for doubtful accounts is based on the last 4 years' write-off percentages, failure to write off delinquent tax and license accounts that meet the write-off criteria could affect this estimate.

Further, Revenue Recovery uses a manual process to identify uncollectible tax and license accounts for the annual write-off process. Revenue collectors individually recommend accounts for management review and write-off. Creating a system report to identify all delinquent tax and license accounts that have not received a payment in the last 180 days

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<sup>4</sup> City of Scottsdale *Comprehensive Financial Policies and Governing Guidance* no. 16 provides that "uncollectible accounts, excluding City Court, will be no more than five-tenths of one percent of revenue on an annual basis unless otherwise approved by City Council."

would ensure Revenue Recovery management reviews the potentially uncollectible accounts that may be subject to write-off.

- C. Revenue Recovery is not effective in collecting other City departments' delinquent accounts receivable.
  - 1. As summarized in Table 6, over the past five fiscal years, City departments have referred at least 67 accounts totaling almost \$220,000 to Revenue Recovery for collection assistance.

**Table 6. City Departments' Delinquent Account Referrals and Collections**

Fiscal Year	Accounts Referred	Amount Referred	Amount Collected	Percentage Collected
FY 2014/15	10	\$16,095	\$5,649	35%
FY 2015/16	21	\$78,700	\$69,574	88%
FY 2016/17	10	\$57,655	\$6,798	12%
FY 2017/18	10	\$26,199	\$1,408	5%
FY 2018/19	16	\$41,204	\$908	2%
<b>Total</b>	<b>67</b>	<b>\$219,853</b>	<b>\$84,337</b>	<b>38%</b>

Note: Revenue Recovery management provided summary data for FY 2014/15 through FY 2016/17 and more detailed information for FY 2017/18 through FY 2018/19.

In addition to these amounts collected directly, Revenue Recovery referred one other department account totaling \$15,890 to the Revenue Enhancement Team in October 2017 (FY 2017/18). Payments totaling \$15,100 have been received through June 2019.

**SOURCE:** Auditor analysis of Revenue Recovery spreadsheets for department-referred delinquent accounts.

Collection efforts are inconsistent for these accounts. For example, during FY 2018/19, 7 departments referred 16 accounts to Revenue Recovery for collection assistance. However, according to Revenue Recovery's tracking spreadsheet, collection-related actions, such as phone calls, emails, attorney demand letters, or skip tracing, are inconsistently performed. For example, one of 5 accounts referred by the Human Resources department had no recorded collection activity while 2 WestWorld accounts had actions recorded on 6 separate days.

Currently, Revenue Recovery does not have policies, procedures, or standard workflows defined for collection activity on other departments' delinquent accounts. As a result, the risk is increased that the delinquent amounts owed to the City will not be collected in a timely and effective manner.

- 2. Revenue Recovery management reported that other departments generally only refer delinquent accounts for collection if prompted by Accounting staff during the annual account write-off process. Further, the information currently provided in the City's annual write-off process is not detailed enough for Revenue Recovery's review to be effective.

AR 269 *Miscellaneous Accounts Receivable* provides that “collection of miscellaneous receivables is primarily a responsibility of each city department; however, Revenue Recovery staff in the City Treasurer’s office will coordinate efforts with departments to evaluate receivables to determine their collectability.” Also, as part of the annual account write-off process, Revenue Recovery is responsible for reviewing the list of accounts submitted for potential write-off to determine if additional collection efforts are merited.

At fiscal year-end, City departments are required to submit for potential write-off a list of all accounts that have not received a payment in 180 days or more. The write-off forms require department management to sign to acknowledge having “followed an aggressive, consistent and customer-sensitive policy for collecting revenues owed to the City and all reasonable attempts have been made and continue to be made to collect the revenues owed on any accounts/invoices submitted.” However, the departments are not required to provide Revenue Recovery with details on past collection efforts or an accounts receivable aging report.

Developing written criteria to define sufficient collection activity and requiring other departments to provide accounts receivable aging reports when submitting their write-off requests could increase the effectiveness of collection efforts.

- D. Revenue Recovery does not have complete or organized policies, procedures and workflows for efficient and effective collection activity.
- The Business Services Manager stated that staff performs 48 different tasks but was not able to provide policies and procedures for many of those activities. As well, most of the process descriptions provided were for tasks performed by customer service representatives rather than revenue collectors. The collections-related flowcharts and processes that were provided were not complete and specific, and written procedures were not available for key aspects, such as criteria to use in prioritizing collection activity.
  - Although some written procedures provided step-by-step directions, they did not include timeframes for completing steps and moving to the next process. For example, revenue collectors can make payment arrangements with past-due account holders, and the procedure states that revenue collectors are expected to monitor the installment payments. There is no set timeframe to review accounts to ensure that payments are being made, and our review found no documentation of monitoring or following up with the account holder when payments are not made as agreed.
  - For utility accounts, the flowchart provided states that revenue collectors are required to make a minimum of two calls within the first week after accounts reach 60-days delinquent. As stated in Finding 1, our review of past-due and written-off account samples found that revenue collectors are often not contacting delinquent utility accounts timely.
  - Revenue Recovery sends revenue collectors to the ADOR 2 to 3 times per month to research accounts. However, despite receiving training and going to ADOR for the past year, Revenue Recovery has not developed a standardized schedule for the visits or policies and procedures to ensure that revenue collectors are using their time at ADOR efficiently and identifying and requesting the highest priority accounts.

- Certain tasks, such as setting up the auto-dialer to call delinquent account holders, could be automated to be more efficient. Currently, revenue collectors are required to run a daily report of overdue accounts and then start the auto dialer each day. According to the Business Services Manager, the process takes about 20 minutes each day. However, she did note that they are purchasing a new auto-dialer system that will automate the process, which they expect to begin using in December.

Policies, procedures and other written guidance can improve consistency of activities being performed, make it easier to identify and improve inefficient or ineffective practices, and ease new staff training.

- E. Revenue Recovery does not use the state's debt set-off program.

The state of Arizona has established a debt set-off program which allows tax refunds to be used to satisfy debts the taxpayer owes to the state, a political subdivision or a court. Specifically, ARS § 42-1122 (B) provides, in part, that if a taxpayer owes a political subdivision a debt, the political subdivision may notify the state by providing information about the taxpayer and the amount of the debt. However, Revenue Recovery is not currently using the debt set-off program as part of its collection efforts.

### Recommendations:

Business Services department management should:

- A. Require Revenue Recovery to develop and use aging reports to effectively prioritize utility collection activities. This should include using the aging reports to:
1. Ensure that delinquent utility accounts are contacted timely and verify that service disconnections occur consistently for delinquent accounts unless exceptions are documented and approved.
  2. Ensure that appropriate collection efforts have occurred on overdue utility accounts before approving account balance write-offs.
  3. Evaluate whether the collection agency referral processes and the agency's collection efforts are effective. Also, evaluate whether the collection agency contract should be competitively bid and whether to require customers to pay the collection agency fee.
- B. Require Revenue Recovery to develop and use aging reports to effectively prioritize tax and license collection activities. This should include using the aging reports to:
1. Identify delinquent tax and license accounts that would most benefit from Revenue Recovery's collection efforts.
  2. Ensure that appropriate collection efforts occur for delinquent tax and license accounts based on age, amount due and other relevant criteria.
  3. Write off uncollectible tax and license accounts in accordance with Accounting department criteria, including providing written justification for those not being written off.
- C. Monitor collection activity and recovery of other departments referred delinquent accounts. Specifically, require Revenue Recovery to develop written workflows for collecting these accounts, including preparing an aging analysis to focus its efforts and developing written

guidance on appropriate collection activity based on age, amount due, and other relevant criteria.

- D. Ensure Revenue Recovery develops and implements written policies, procedures and workflows with comprehensive guidance and directions to effectively carry out its responsibilities.
- E. Evaluate using the state's debt set-off program as part of its collection efforts.

## 2. Revenue recovery program management and oversight could be improved.

Tracking collection-related data for reporting, performance measures, and program management and oversight may help focus revenue recovery efforts. As well, other potential improvements include developing a public policy related to site visits and participating in a collections-related professional organization.

- A. Revenue Recovery does not have a transparent, public policy for how its site visits are conducted to collect delinquent accounts and should reconsider its related collection practice.

Publicly available information regarding how the City's Revenue Recovery staff would conduct a site visit could help protect the public against fraudulent activity. For example, the City of Glendale's website provides information about its Collections department site visits, including the Collections department's *City of Glendale Employees Outside of the Office Personal Contact* memorandum. This memorandum provides informative disclosures, such as noting that:

- City employees typically only make field visits to businesses regarding tax and license issues and not to residential addresses unless the business address is residential.
- City employees will have badges and drive a city vehicle with a government license plate.
- City employees do not accept cash payments while on field visits.
- The supervisor's name and telephone number are listed for issues or questions, and a customer service telephone number is listed to verify the City employee's identity and to make payments.

Providing similar information online for Scottsdale citizens can help protect the public from fraudulent activity.

Further, Revenue Recovery currently has an Accounting department exception to AR 268 *Cash Handling* to allow revenue collectors to transport cash from a collection site. However, removing this exception and requiring any customer payment to be made through a phone call to Customer Services or using the online option would better support employee safety and decrease the risk of loss or theft.

- B. Revenue Recovery does not track department or individual collection data for reporting, performance measures and effective program management and oversight.
  - 1. When reporting on its activity, Revenue Recovery includes all payments received on delinquent accounts in its results. However, some past-due collections occur with minimal effort, such as a customer paying a late bill after a receiving an auto-dialer generated phone call warning that water service will be disconnected if payment is not received. Other payments result from revenue collector actions, such as personally contacting the



customer to obtain a payment or placing a lien on the customer's property. Similarly, Revenue Recovery has not developed a method to evaluate the effectiveness of its TPT collection efforts during onsite work at the ADOR.

Further, the revenue collector performance measures include requirements such as making a minimum number of delinquent customer and ADOR site visits. However, rather than requiring a specific number of collection calls or emails within a given timeframe, the phone call performance measure relates to evaluating the quality of the interaction. Establishing performance measures for a minimum number of collection-related calls and emails may help ensure that delinquent customers are contacted timely.

Developing performance measures and tracking the dollars received as a result of the specific collection actions can help Revenue Recovery focus and improve the effectiveness of various collection methods.

2. AR 269 *Miscellaneous Accounts Receivable* requires all City departments to record accounts receivable information in a manner to permit aging analysis and requires that the aging report be prepared and reviewed monthly by management. However, Revenue Recovery management stated that they do not use aging reports because payments are received daily, and the account balances and delinquency status would be constantly changing.

- C. Revenue Recovery staff prepare activity logs that are not complete or detailed.

Revenue collectors use spreadsheet-based activity logs, as illustrated in Figure 2 on page 20, to record their activities, such as research, phone calls, liens, site visits, and customer service assistance. However, the activity logs are not complete or detailed. For example, the activity logs for one week in April 2019 showed the revenue collectors recorded from 10 hours (25%) to 32 hours (80%) each for the 40-hour work week. Additionally, the account number and activity description columns are not always complete or detailed. Revenue Recovery management has not provided written guidance to describe what is required for activity log completion. Scanning through several logs shows they are seldom detailed or complete.

*(continued on next page)*

**Figure 2. Example Revenue Collector Activity Logs**

REVENUE RECOVERY ACTIVITY LOG							
DAY:	Monday 4.8.2019						
DATE:							
Activities include: research/call back / lien / lien release / call made							
At the end of each workday, Save your file in YOUR Activity Log Folder as shown below:							
Example:	Activity Log week ending 08.09.2013 8/6/2013 4:23 PM Microsoft Excel W... 34 KB						
Note: Phone Calls are TPT calls - Call Data is already recorded in Northstar for UB calls - DO record UB <i>extended or complicated</i> calls to account for extended time requireme							
ACCT#	NAME	ACTIVITY	COMMENT	CHECK if PMT ARR	TIME SPENT*	CHECK if CALL MADE	CHECK if CALL RECEIVED
		phone calls (29)					
		comm and multi faml report			2 hrs		
		RR meeting			1.5 hrs		
		cancellation checklist					
		cancellation checklist					
		cancellation checklist					
		2 del letters					
		rvsd rev w/o procedure					

REVENUE RECOVERY ACTIVITY LOG							
DAY:	Friday 4-12-19						
DATE:							
Activities include: research/call back / lien / lien release / call made							
At the end of each workday, Save your file in your Activity Log Folder as: Date followed by Last Name							
Example:							
ACCT#	NAME	ACTIVITY	COMMENT	CHECK if PMT ARR	TIME SPENT*	CHECK if CALL MADE	CHECK if CALL RECEIVED
		disco notice-emails			30mi		
		added bad debt to 278 acct			5hr 45mi		
		liens			20mi		
		disco account details	406				
		14 calls @ 3:31					

Note: Individual taxpayer name and account number redacted.

SOURCE: Revenue Recovery management.

For effective management monitoring and evaluation of individual employee performance and department collection activity, revenue collectors should document the total hours worked in relevant categories, such as:

- Collection activities, including:
  - Account number
  - Description of collection activity

- Dollars collected
- Customer service activities performed and type, such as passports or counter
- Administrative activities and type, such as meetings or timesheets
- Leave time and type, such as vacation or medical leave

The City has a time management system application that Revenue Recovery may be able to use in place of the spreadsheet logging. The existing reports would make it easier for management to use the time data for analysis and reporting.

- D. Revenue Recovery does not participate in a collections-related professional organization.

Revenue Recovery management stated the unit belongs to a customer service professional group hosted through the AZ Water Association and is able to benchmark with other jurisdictions through the League of Arizona Cities and Towns.<sup>5</sup> However, Revenue Recovery does not participate in a collections-related professional organization, such as the Association of Credit and Collection Professionals or its affiliate, the Arizona Collectors Association.

These collection-related professional organizations could provide Revenue Recovery management and employees with compliance, best practices, training and professional development.

### Recommendations:

Business Services department management should:

- A. Develop transparent, public procedures for site visits and make that information available on the City's website. Further, Business Services department management should not allow employees to accept cash or cash equivalent payments when working outside of the office.
- B. Develop measurements and reports that track actual collections resulting from revenue collector activity and develop individual performance goals related to revenue collection and communication with delinquent accounts.
- C. Require revenue collector activity logs to be complete and detailed. Further, evaluate use of the City's time management system to replace the spreadsheet logs.
- D. Evaluate the value of Revenue Recovery staff joining a collections-related professional organization for development and training.

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<sup>5</sup> The Arizona section of the American Water Works Association (AWWA) and the Arizona member association of the Water Environment Federation (WEF).



## MANAGEMENT ACTION PLAN

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### 1. Revenue Recovery is not effectively identifying or collecting delinquent accounts.

#### Recommendations:

Business Services department management should:

- A. Require Revenue Recovery to develop and use aging reports to effectively prioritize utility collection activities. This should include using the aging reports to:
  1. Ensure that delinquent utility accounts are contacted timely and verify that service disconnections occur consistently for delinquent accounts unless exceptions are documented and approved.
  2. Ensure that appropriate collection efforts have occurred on overdue utility accounts before approving account balance write-offs.
  3. Evaluate whether the collection agency referral processes and the agency's collection efforts are effective. Also, evaluate whether the collection agency contract should be competitively bid and whether to require customers to pay the collection agency fee.
- B. Require Revenue Recovery to develop and use aging reports to effectively prioritize tax and license collection activities. This should include using the aging reports to:
  1. Identify delinquent tax and license accounts that would most benefit from Revenue Recovery's collection efforts.
  2. Ensure that appropriate collection efforts occur for delinquent tax and license accounts based on age, amount due and other relevant criteria.
  3. Write off uncollectible tax and license accounts in accordance with Accounting department criteria, including providing written justification for those not being written off.
- C. Monitor collection activity and recovery of other departments referred delinquent accounts. Specifically, require Revenue Recovery to develop written workflows for collecting these accounts, including preparing an aging analysis to focus its efforts and developing written guidance on appropriate collection activity based on age, amount due, and other relevant criteria.
- D. Ensure Revenue Recovery develops and implements written policies, procedures and workflows with comprehensive guidance and directions to effectively carry out its responsibilities.
- E. Evaluate using the state's debt set-off program as part of its collection efforts.

*(continued on next page)*

**MANAGEMENT RESPONSE:** Agree

**PROPOSED RESOLUTION:**

- A. Revenue Recovery:
  - 1. Will develop and utilize monthly aging reports to prioritize utility collection activity. Revenue Recovery will continue to utilize previously developed strategies to ensure service disconnections occur consistently, and in a timely manner.
  - 2. Management will create specific, standardized procedures addressing mandatory minimum collection activity to be completed and documented on delinquent utility accounts prior to write-off. Management will create a mechanism for reviewing collection activity to ensure consistency and adherence.
  - 3. Management will work with Purchasing to evaluate more formal contracting methodology. Management will work with the collection agency to explore additional reporting to assist with tracking agency performance. Management will evaluate the possibility of passing collection agency fees to customers
- B. Revenue Recovery:
  - 1. Will create and utilize monthly aging reports to prioritize tax and license collection activity.
  - 2. Management will define criteria to prioritize collection efforts based on age, balance, and risk. Criteria will be included in procedural documents. Revenue Collectors will receive any necessary training related to required collection activity. A mechanism for tracking collection activity will be developed and implemented to ensure collection efforts adhere to priorities and procedures.
  - 3. Management will ensure that uncollectible tax and license account write-offs adhere to Accounting department criteria, and include sufficient justification to support write-off status.
- C. Revenue Recovery management will create procedural documents and workflow to guide collection activity for other departments/other department balances. Revenue Collectors will work with department liaisons to increase the communication of collections eligible accounts. Other department collections will be prioritized based on established criteria (age, balance, other relevant criteria).
- D. Revenue Recovery management will continue to review, update, and/or create detailed policies, procedural documents, and workflow to direct collections activity. These documents will be stored on the department's SharePoint site.
- E. Business Services management will evaluate the use of the state's debt set-off program as part of the collections effort.

**RESPONSIBLE PARTY:** Business Services Director, Revenue Recovery Manager, Revenue Collectors, NorthStar Support, Business Services Technology, Purchasing, Legal

**COMPLETED BY:** 3/31/2020

## 2. Revenue recovery program management and oversight could be improved.

### Recommendations:

Business Services department management should:

- A. Develop transparent, public procedures for site visits and make that information available on the City's website. Further, Business Services department management should not allow employees to accept cash or cash equivalent payments when working outside of the office.
- B. Develop measurements and reports that track actual collections resulting from revenue collector activity and develop individual performance goals related to revenue collection and communication with delinquent accounts.
- C. Require revenue collector activity logs to be complete and detailed. Further, evaluate use of the City's time management system to replace the spreadsheet logs.
- D. Evaluate the value of Revenue Recovery staff joining a collections-related professional organization for development and training.

**MANAGEMENT RESPONSE:** Agree

### PROPOSED RESOLUTION:

- A. Business Services management will add information to the City's website to inform customers of site visits, and what to expect if visited. The Cash Handling Exception allowing employees to accept cash while working outside the office will be rescinded.
- B. Revenue Recovery management will develop and implement reports to track actual collections resulting from revenue collector activity. These reports will be utilized to establish collections-related performance goals.
- C. Business Services management is currently evaluating enhanced activity tracking options, with the goal of implementing and requiring completion.
- D. Business Services management currently belongs to AZWater, a professional organization that enables membership to share ideas and best practices, and obtain training related to all aspects of water utility accounts. Business Services management will evaluate additional collections-related organizations to join.

**RESPONSIBLE PARTY:** Business Services Director, Revenue Recovery Manager, Business Services Technology, NorthStar Support

**COMPLETED BY:** 3/31/2020

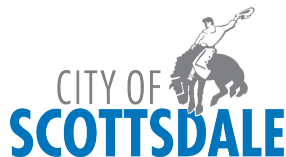
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