

City Clerk



Audit of the Department of Public Works
Billings and Collections

W. MARTIN MORICS
City Comptroller
City of Milwaukee, Wisconsin

November, 2003



Office of the Comptroller

November 25, 2003

W. Martin Morics, C.P.A.
Comptroller

John M. Egan, C.P.A.
Deputy Comptroller

Michael J. Dain
Special Deputy Comptroller

Anita W. Paraffi, C.P.A.
Special Deputy Comptroller

To the Honorable
the Common Council
City of Milwaukee

Dear Council Members:

The attached report presents the results of our Audit of the Department of Public Works – Administration Division Billings and Collections. The audit objectives were to determine the appropriateness, accuracy, timeliness and effectiveness of the Department of Public Works billing and collection process. The scope included all billings to authorized outside parties issued for the year 2002. The audit did not include billings to other City departments or related City entities (i.e. Housing Authority, Redevelopment Authority, etc.). The audit also did not include collection efforts by the City's collection agencies (Kohn law firm and Professional Account Management).

The audit examined all billable services. With one notable exception, all and only services authorized for billing are in fact being billed. Further, the audit concluded that DPW – Administration billings are accurate. Regarding timeliness of these billings significant improvements are needed. The average time required for DPW Administration to bill is 59 days. This is excessive by normal business standards. Based upon follow up by an outside collection agency, the DPW collections process meets minimum requirements. Lastly, internal controls related to the DPW billing & collection process needs improvement. One essential improvement is the development of a comprehensive billing-collections policy and procedures manual.

The audit has recommended other initiatives to enhance and improve the billing-collection process and related internal controls. Audit findings and recommendations are more fully discussed in the Audit Questions, Conclusions and Recommendations sections of the report, and the Departmental Response follows thereafter.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the all Divisions and Sections of the Department of Public Works involved in this audit.

Sincerely,



W. MARTIN MORICS
Comptroller

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AUDIT SCOPE AND OBJECTIVES

Audit Scope and Objectives

The objectives of this audit were to determine the appropriateness, accuracy, timeliness and effectiveness of the Department of Public Works billing and collections process. The scope of the audit included all billings to authorized outside parties issued during 2002. The audit did not include billings to other City departments or related City entities (i.e. Housing Authority, Redevelopment Authority, etc.). The audit also did not include collection efforts by the City's collection agencies (Kohn law firm and Professional Account Management).

The Audit answers the following questions:

1. Are all and only authorized billable services for DPW – Administration being billed?
2. Are DPW – Administration billings accurate and timely (including any late payment fees or other penalties) ?
3. Are DPW – Administration collections efforts effective?
4. Are Internal Controls over the current billing and collection process adequate?

**GENERAL BACKGROUND,
ORGANIZATION AND FISCAL IMPACT**

Organization, Fiscal Impact

The Department of Public Works (DPW) has been billing for repairs to streets, sewers and other City infrastructure items at least since 1875, when by Charter Ordinance billing powers were granted. Today DPW bills for services provided by its eight divisions/sections along with board-up services as requested by Milwaukee Police Department (MPD) and the Department of Neighborhood Services (DNS). DPW also bills for State and Federal transportation funding through the Comptroller's Office. See Appendix I for a detailed list of services billed by DPW – Administration.

The DPW divisions and sections whose services are billed through DPW - Administration: DPW – Administration; DPW –Administration- Parking Operations (Parking); DPW – Administration – Board-up (Board-ups); DPW – Buildings & Fleet (Fleet); DPW Forestry; DPW – Sanitation; DPW – Infrastructure – Engineering; DPW Infrastructure - Electrical Services (ES) and DPW – Infrastructure – Sewer Maintenance.

About three years ago, DPW Administration began a management reorganization in 2000 and 2001 including new financial staff. Having limited prior experience with DPW billing and collections procedures, this staff worked to improve the billings and collections process, focusing on improved efficiency. Such improvements included utilization a new system (Peregrine System) for tracking fleet costs/repairs and reduction of manual entries and paper work through DPW. In addition, a new automated Job Order/Invoice System was developed and implemented in-house during this period to automate and standardize the billing and collections process.

Over the last five years DPW has billed an average of \$3.7 million annually for repairs and the lease of City properties. Through the Comptrollers Office it has also billed an average of \$3.2 million annually for State and Federal transportation funding. The State also pays for repairs to certain city streets which are also classified as State highways (100% State). The total dollar amount of DPW billings has grown by more than 80% from 1998 to 2002 or about \$1,000,000 annually. See below (\$ in 1,000)

	DPW Service Billings	State & Federal	100% State	Total
1998	\$ 3,384	\$ 1,642	\$ 109	\$ 5,135
1999	\$ 2,687	\$ 3,556	\$ 229	\$ 6,472
2000	\$ 3,659	\$ 2,796	\$ 98	\$ 6,553
2001	\$ 3,711	\$ 2,981	\$ 98	\$ 6,790
2002	\$ 4,809	\$ 3,803	\$ 730	\$ 9,342
Total	\$ 18,250	\$ 14,778	\$ 1,264	\$ 34,292

There are five major types of Billing Processes: Job Order/Invoice System, "Peregrine" Information System, "Board-up" billing system, Direct Invoice and State & Federal Funding. Both the Peregrine and Direct Invoice systems also utilize the DPW Job Order/Invoice system. The Board-up and State & Federal Transportation Funding billing process do not utilize the Job Order/Invoice System (See Appendix 1 – DPW Billing Processes).

The Job Order/Invoice system uses an electronically generated Job Order form to track service/repair work performed. This information is input into the Job Order/Invoice system. When the work is completed items such as the cost of parts, payroll and overhead are added. The system produces an invoice mailed to the responsible party.

Fleet uses the Peregrine Information System to track the use, repair costs and related overhead associated with equipment operated by DPW and MPD. When City traffic signs, etc. are damaged due to an accident a DPW crew performs the repair, recording the time and materials used to complete the job, Fleet then transmits cost information electronically from Peregrine to DPW – Administration. DPW Administration then inputs the information into the Job Order/Invoice system, which prepares the invoice.

The Board-up System is a stand-alone system designed to track the board-up of buildings in the city ordered by either the MPD or DNS. This system accumulates the cost, materials and labor and then generates a letter invoice sent to the property owner. If the cost of the board-up is not paid, that cost is added to the owner's property tax bill.

Direct Invoice uses only the invoice portion of the Job Order/Invoice system. DPW Divisions such as Administration and the Parking Fund prepare invoices directly from this system for such items as conduit rental and parking facility lease rentals.

State and Federal Transportation funding for highway and bridge repairs and construction as administered by the State, requires a separate process. Under this process the State advances State and Federal Transportation funding for services rendered. The Comptroller's Office annually reports to the State the amount of expenditures applied against State and Federal Transportation funding, as well as projects funded 100 percent by the State. DPW and the Comptroller's Office jointly prepare a State and Federal Funding expenditure report (billing).

**AUDIT QUESTIONS, CONCLUSIONS
AND RECOMMENDATIONS**

Audit Questions and Conclusions

1. Are all and only authorized billable services for DPW – Administration being billed?

The audit examined all services as listed in Appendix 1. With one notable exception, all and only authorized billable services for DPW Administration are being billed.

Statute, City Charter and contractual agreement as listed in Appendix # 2 provide the authority to bill for the above DPW Services. A separate review of City Ordinances and State Statutes did not uncover any required billing not being billed currently to outside parties. A separate review of DPW construction contracts with the City and outside vendors found no unbilled items.

The exception noted was conduit rental fees which were provided in 2001, but not billed in a timely manner. Following notification from the Comptroller's Office in mid 2002 that revenues had not yet been recorded for this billing in 2001 or therefore in 2002, an invoice in the amount of \$294,000 was mailed in September 2002 to the customer. This invoice covered conduit fees for both 2001 and 2002.

2. Are DPW – Administration billings accurate and timely (including any late payment fees or other penalties) ?

Accuracy: Based on an audit sample, across all billing types and without exception, DPW billings to external parties were found to be accurate.

Timeliness: Excluding parking lot pre-billings and one unbilled conduit rental charge (see footnotes), the average time required for DPW – Administration to bill a typical dollar totaled 59 days. This is excessive by normal business standards. In a separate sample of 75 billings for “board up” services, all 25 paid invoices were billed on a timely basis. The Audit could not determine the timeliness of the remaining 50 unpaid board up billings.

A statistical sample across all types of bills issued by DPW – Administration for the year 2002 was examined. The sample consisted of 87 invoices from the Job Order/Invoice system (See Table below), and 75 invoices for board up services. No accuracy exceptions were found.

**Department of Public Works - Administration Division
Audit Sample
External Billings - Time to Bill by Service Type**

<u>Service Type</u>	<u>Number of Bills Sampled</u>	<u>Average # of Days to Bill</u>	<u>Total Dollars Billed</u>	<u>% of Total</u>
Recycling Service Billings	3	< 30 days (monthly) assume 15 days	\$ 7,832	4%
Misc. Outside Billings	2	7	\$ 65,099	35%
Inspection Services - MMSD	2	213	\$ 28,118	15%
Tree Repair/Replacement	14	51	\$ 4,782	3%
Vehicle Damage Repair (Fleet)	8	25	\$ 20,357	11%
Contractor Service Requests	6	25	\$ 2,813	2%
Conduit Rental/Misc. Billings ¹	4	N/A	N/A	N/A
Contractor Damage Repair	10	35	\$ 7,304	4%
Repairs to Traffic/Street Lights	29	66	\$ 47,470	26%
Parking Rentals - Contracts ²	<u>9</u>	<u>N/A</u>	<u>\$ 46,236</u>	<u>N/A</u>
Total	<u>87</u>	<u>422</u>	<u>\$ 230,011</u>	<u>100%</u>

1) Conduit Rental was excluded from the billing analysis because a single, large services invoice was not prepared. Inclusion would have unfairly distorted the overall average time to bill.

2) Parking billings were excluded from the billing analysis because all parking real estate leases are pre-billed 1-3 months prior to the lease payment due date.

Regarding the timeliness of billings, the audit concludes that based on the limited sample, 56 percent of the dollar value of DPW billings¹ were timely. Timely billings included billings for recycling services, vehicle damage repair, contractor service requests and contractor damage repairs. These billings required only about 14 days from service to bill. However, 44 percent of the sampled Job Order/Invoice system dollar billings required more than 45 days to bill. Further findings from the sample:

- Repairs to traffic and street lights, tree replacement/repair and MMSD inspection service billings required the longest time to bill, with these billings types requiring an average 116 days to bill.
- Two large inspection services billings to the Milwaukee Metropolitan Sewerage District required an average seven months to prepare and mail the bill.

Billing for traffic and street light repairs was hampered by an extensive series of time consuming billing procedures. The Milwaukee Police Department, City Attorney, DPW – Infrastructure and DPW – Electrical Services are all involved in steps necessary to bill the proper party. Certain of these processing steps are performed in “batches” accumulated over periods of days or even weeks. Delays occur as documents remain unprocessed while the batch of damage incidents grows. As a result, the average time required to bill for these repair services exceeds two months.

For tree replacement and inspection services for MMSD, much of the delay in billings can be attributed to extensive follow-up with various departments to collect detailed cost information on the service provided. For example, DPW is now collecting information on the actual labor, material and equipment usage for each particular tree replacement. This approach adds days, and in the case of inspection services for MMSD, months to the bill preparation process. This tedious bill preparation process is also costly in terms of both time and dollar costs to DPW.

The audit sample also included 75 board-up billings including 50 delinquent invoices and 25 paid invoices.

1. Both paid and delinquent billings were found to be accurate.
2. The 25 paid invoices sampled revealed that they were billed within 10 to 15 business days after completion of necessary work – Excellent!
3. The audit could not determine the timeliness of delinquent billings.

¹ Conduit rental billings were excluded because a single large services invoice was not prepared. Inclusion would have unfairly distorted the overall average time to bill. Parking billings were excluded because all parking real estate leases are pre-billed 1 – 3 months prior to the payment due date.

There are no late payment fees or other penalties assessed as a result of non-payment for DPW administered services. In contrast, Municipal Services bill (formerly the water bill) assesses late fees and penalties to other DPW charges (snow removal, garbage pick-up & Fire Protection Fees).

The State advances the City up to \$4 million annually for its participation in City transportation projects. The audit also reviewed related billings for reimbursement from the State for these State and Federally funded repairs to streets, highways and bridges.

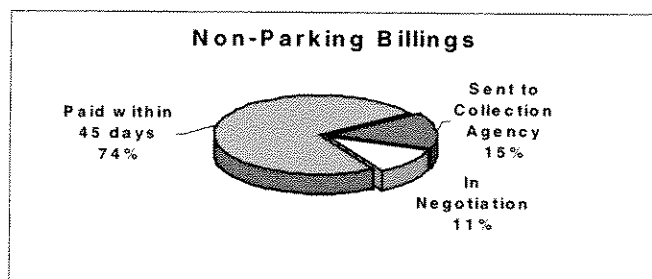
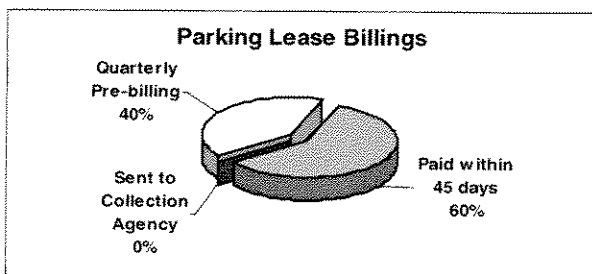
State procedures require billing every four months, but thus far the State has accepted annual or semi annual billings without penalty assessed to the City. Billing reconciliation performed by DPW - Infrastructure (Engineering) takes up to 4 to 5 months. As, as a time saving measure, DPW - Infrastructure (Engineering) performs the State's reconciliation procedure that expedites the reimbursement process. Therefore, the City is not required to provide the State with the level of detail that other municipalities must provide. Payments made by the State to the City for 100 percent State funded projects after the reconciliation average \$250,000 annually. Any adjustments made for State and Federally funded projects are made against the next year's advance. Some reconciliation delay was caused by a lack of written procedures within two sections of DPW – Infrastructure.

Overall, the current DPW billing and reimbursement process for Federal and State funded street, highway and bridge improvements was found to be both accurate and timely.

3. Are DPW Administration collection efforts effective?

Given that most DPW billings are under \$1,000 and the DPW collection effort is based upon follow up by an outside collection agency, the DPW collections process meets minimum requirements.

Most unpaid DPW billings over 45 days old are referred to the City's contracted collection agency. The audit examined DPW billings for services provided 45 to 90 days prior to the date of the sample (266 billings). See charts below.



The following were noted:

- Within 45 days of billing, 66 percent of the total dollars billed and 64 percent of the invoices sent were paid.
- If parking fund pre-billings are eliminated, the collection percentages increase to 74 percent of the dollars billed and 65 percent of the number of invoices sent within 45 days or less. Parking leases are pre-billed up to 90 days in advance of the due date. This pre-billing is done primarily to allow the parking operator to have a coupon to present to the Treasures Office for payment (without a coupon the Treasurer's Office can not receive the payment). Normally, real estate leases with monthly payment would not require any billing process.
- Department-wide, unpaid parking invoices accounted for 62 percent of the total unpaid amount and 18 percent of the unpaid invoices.
- The Department's stated practice is to send all invoices over \$100 and unpaid for 45 days or more to the City's collection agency. However, many of these invoices were not actually sent to the City's collection agency (23 percent). Instead, the department initiated follow up, including negotiating a payment arrangement, placing charges on owners' property tax bill, (deducting the charges from current contractor invoices), etc. in an effort to get payment for delinquent billings.
- DPW – Administration will send a follow-up letter related to delinquent business billings including contractors.

In addition to the above, each DPW division devises its own billing procedures. Examples: Parking Leases are pre-billed up to three months in advance and Forestry places certain delinquent bills on the owner's property tax bill. Since the City's collection agency does not accept invoices under \$100, each DPW division establishes its own procedures for either collecting or canceling these small bills. There is a lack of written policies and procedures for collections both within the DPW divisions and Department wide.

No follow-up bill is issued prior to sending to the City's collection agency. According to the City Attorney, there are no provisions in the State Statutes prohibiting the City from collecting late fees. An ordinance would be needed to require the assessment of late fees and or penalties.

The City recovers 100 percent of its eligible costs for the State and Federally funded street aid program. State funded projects (100 percent State funded) result in a check to the City usually 2 to 3 months after the report is filed.

One invoice to Time-Warner under a Conduit Rental Agreement remained unpaid from 2002. This invoice totaled \$294,857, covered the years 2001 and 2002, and was mailed in September 2002. During the course of the audit, follow-up by the Auditors resulted in Time-Warner payment, with a hand delivered check in the amount of \$241,157.40 on September 26, 2003. The remaining balance is in dispute, according to Time Warner. Prior collection efforts on the \$294,857 amount due was limited to telephone calls and eMails. No contact had been made with the City Attorney's Office or the City's Collection Agency to pursue this issue. This invoice was handled differently than other invoices, partially because there are no written procedures to handle this type of billing.

4. Are internal controls over the current billing & collection process adequate?

While a number of sound controls are in place, important internal controls related to the DPW Billing & Collection process need improvement.

Sound internal control over any process begins with top management involvement. DPW top management's involvement in the billing and collection process is an important strength. Good internal controls require well-written policies and procedures governing the billing and collection process. DPW Administration has well written policies and procedures for telephone billing and accounts receivable processing. The audit also disclosed the beginning efforts toward of a policy and procedures manual. However, **current written policies and procedures require expansion to cover all billing types.**

Controls over any computerized processing system require four elements: access controls, input controls, output controls and system monitoring.

- Access controls allow only those authorized to use a system. DPW system administrators control access to input/output based on a "need to use" basis, by issuing user id codes based on their personal knowledge of those requesting access. Passwords are also required for access. DPW system administrators (who have no ability to either bill or collect) provide system maintenance and system modification. **Access controls appear to be adequate.**
- Input to the current Job Order/Invoice system is basically manual entry that requires thorough managerial review. Current FMIS data (labor and materials costs) is manually input with limited managerial review or little documentation supporting the methods of cost accumulation. Further, certain overhead costs are manually calculated with no managerial review. Control over data entry could be improved by adding an automated interface with FMIS. Automating this manual FMIS entry

process interface would reduce the opportunity for error. Further, by restricting data to that coming from another system reduces the chances of manipulation of the data for unauthorized purposes. **The current input control processes are in need of improvement.**

- To avoid missing data, or processing invoices with incomplete data a system should have controls in place to assure all data fields required have been filled. The current Job Order/Invoice system requires all table fields to be completed, and has “drop-down boxes” for most required data entered. Drop down boxes provide a control over the types of transactions entered, eliminating errors that would occur if manually entered. **This set of controls is adequate.**
- Input/output balance control is required to assure that once input information is not lost within the system. DPW performs input/output balance reconciliation. DPW management runs an “outstanding” work-order report that identifies work-orders that are active and not yet billed. Each section staff billing analyst reviews the report to assure that all work-orders have been processed. Once invoiced, comparison of invoices to the hard copies is made to assure that all billings have been made. **These controls appear to be adequate.**
- Output controls require some form of managerial review to assure that the system has processed the data in a complete, accurate, authorized, consistent, and timely manner. Management runs a FMIS query report that compares charges (FMIS costs) to revenues (DPW billings) on a project by project basis. Such a report identifies any over/under billing through the system. **There appears to be adequate control over output.**
- System design provides audit trail capability, however, **actual use of this capability by DPW management was not demonstrated during the course of this audit. Improvement is needed in the use of available system audit features.**

Management and control reporting within the Job Order/Invoice System needs to be expanded.

- The tracking of open job orders is difficult at best, requiring manual review of job orders to determine what is open, such as a status report.
- An aged accounts receivable report designed for the Commissioner of DPW is not prepared.
- The lack of traditional separation of data creation, entry and processing in some areas requires an audit trail report for management. The system is capable of providing such a report but this report is not produced

- Invoices sent to the City's collection agency are only reported annually for Forestry, making active tracking of open invoices difficult and untimely.

An important mitigating control over processing is the customer, who will likely complain about an over billing or pay if he or she deems the bill accurate. However, customers are unlikely to complain about under billing.

Control over "board up" billings needs improvement. **One person performs all board-up billings collection and record keeping functions. This poor control environment presents an opportunity for both error and abuse. Responsibilities for recording the bill, canceling the bill and receiving payment for the bill should be separated to the extent possible and subject to thorough management oversight.** The Board up System cannot track board-up orders received, board-ups paid, and cancelled invoices.

DPW Billing and Collections Recommendations

DPW Administration has implemented a number of improvements to its billing and collection process since 1999. Improvements include: implementation of a Job Order/Invoice System for all divisions of DPW; implementation of cancellation and payment features to the Board-up System, and a reduction of manual entries and paperwork throughout DPW.

There is a need for further action to reach major system goals, namely, more timely billing, effective follow-up on all unpaid bills and improved internal control. While DPW Administration has instituted a number of improvements, significant time must still be spent identifying and correcting errors. To become more proactive and assure continuity as personnel change, DPW Administration needs to improve internal controls and expand management reporting to minimize errors and improve collections. The following recommendations focus on the above goals:

Recommendation 1:

The time period required for the batch-processing of certain types of bills can and should be shortened. DPW billings such as Electrical Services billings for repairs to traffic and street lighting that are currently processed in batches accumulated over 30-45 days or more. Reducing the time internally between batch processing periods to no more than two weeks will substantially improve the timeliness of these billings.

Recommendation 2:

Wherever feasible, eliminate the time consuming labor cost accumulation now required. For example, where an individual DPW service charge is less than \$500-\$1,000 and the related service can be classified into a limited number of standard service types, establish a simple fee schedule for each service type (standard costs). This fee schedule would be updated annually using actual prior year costs to estimate average costs for the current year. Each year's fee schedule would also be adjusted upward/downward to accommodate any prior year shortfall/surplus in cost recovery.

DPW services that could be candidates for such a fee schedule include: Forestry tree damages, contractor damage, and Electrical Services Section street lights and traffic

signal knockdowns. Fee schedules could be based on individual service units (examples: per street light repaired, per street light replaced, etc.) or area/volume of service provided (example: cost per sq. ft.).

Recommendation 3:

DPW Administration should initiate a major effort to re-examine, update and formalize its billing and collection practices through a comprehensive DPW Billing and Collection Policy and Procedures Manual including the following:

- a) Written policies describing the major goals and standards governing billing and collection for specified DPW services. These policies would include:
 - 1) The DPW services to be billed and the related authority
 - 2) The applicable service charge schedules and cost recovery goals used in setting such charges
 - 3) The targeted maximum time between service delivery and billing
 - 4) A clear definition of a delinquent bill
 - 5) Collection percentage goals at specified ages such as 30, 60, 90 days, 6 months.
 - 6) A written policy regarding the assessment of interest and/or penalties for late payment of selected DPW bills for service.
- b) A written set of procedures covering the entire billing and collection process for all applicable DPW services. Given the above billing and collection policies, these procedures would clearly describe, "Who does what, when and how the DPW policies are to be executed, supervised and monitored." **This is an essential improvement.**

Recommendation 4:

DPW should consider for introduction to the Common Council a resolution that would empower DPW to assess late fees and penalties on all appropriate DPW billings. Without the interface to FMIS, it may not be feasible or very difficult to set up these late fees or penalties for all billing types. However, consideration should be given to larger billings, such as Contractor Damages or Misc. Billings. Possible penalties include:

- a) assessing a 3% penalty on invoices remaining unpaid for more than 30 days and/or;
- b) assessing a 3% penalty on invoices remaining unpaid for more than 60 days

The specific penalty would depend on the Department's definition of a "delinquent" bill.

Recommendation 5:

DPW should develop basic periodic reporting to assist in the tracking of billing and collections for all types of billings including board-ups. These reports should be used by DPW management and also made available to the Commissioner of DPW on a monthly basis. In addition, an annual report on the status of all DPW billings and collections should be prepared for the Common Council. Per review of the Collection Services for Receivables Contract with the City, "At the City's request, Contractor shall generate a listing of all active accounts with current balances due and payments to date." Record Keeping (Section IV) and Reporting (Section V) of the contract details all reports that are available to the City upon request. These reports should be reviewed on a periodic basis to track billing and collections for those invoices forwarded to Kohn Law Firm for collections.

Recommendation 6:

DPW should strengthen its managerial review of data input to the systems (i.e. overhead, etc.).

- a) DPW management should formalize rules for allocation of indirect costs and approve any major exceptions on a case-by-case basis.
- b) DPW Fleet provides equipment rental charges developed from costs accrued and collected in the Peregrine System. Annually this cost information is extracted from Peregrine with little managerial review. No written procedures are in place to govern this process. Therefore, the policy and procedural manual mentioned above should include the documentation of this process.

Recommendation 7:

For all Board-up billings and collections DPW – Administration should separate the responsibilities for billing, collection and recording to three different individuals. If this is impractical, at least two individuals should perform these processing tasks with active oversight by DPW management. Active management review and written sign-off for these activities should be required.

Recommendation 8:

DPW should examine the feasibility of integrating its billing and collection systems with FMIS. Control over input data could be improved by adding an automated interface with FMIS, replacing manual data entry. The reduction of manual data entry would reduce the opportunity for errors. Restricting the data to that coming from another system would reduce opportunities for manipulation of the data for unauthorized purposes.

Recommendation 9:

Normal real estate leases provide that the lessor sends their payment in by the 1st of each payment period. The Treasurer's accounting system requires that our parking lessors have a coupon to make payments and thus complicating the billing process with these prepayment transactions. DPW should consider providing each lessor with coupons for payment at the beginning of each year, eliminating the current parking lease billings and the processing of these coupons through the Job Order/Invoice system. This change would simplify accounting for delinquent payments and substantially reduce the number of billings currently required of DPW Administration.

APPENDICES

Appendix 1

Department of Public Works - Administration Division DPW List of Services - External Billings

System Type	Services Billed (Frequency)	Transactions Billed (Volumes)		Comments
		Dollar Amount (\$)	Number of Transactions(est)	
Job Order/Invoice System	Fleet Billings (Daily)	\$416,305	194	Sewers, Bridges, and Streets are internal charges which are handled through IRI billings (Equipment Utilization Charges)
	- Vehicle Damage Repairs	\$416,305	194	
	- Sewers	see comments		
	- Bridges	see comments		
	- Streets	see comments		
	Electrical Services Billing (Daily)	\$1,993,527	942	Based on your definition of a manual process, most billings are in part, manual. Since there is currently no interface with the DPW Invoice System and FMIS, it is necessary to query FMIS for labor and materials costs.
	- Repairs to Traffic/Street Lights	\$530,685	339	
	- Repairs to Traffic Signs	\$23,630	104	
	- Conduit Rental (and other misc bills)	\$463,356	46	
	- Contractor Damages	\$111,473	218	
	- Sale of Material Billings	\$4,298	7	
	- Contractor Service Requests	\$678,292	94	
	- Electrical Energy Billings (Weekly)	\$181,792	134	
	Forestry Billing (Daily)	\$133,816	269	
	- Tree Repair/Replacement	\$40,493	235	
- Tree Planting	\$91,027	17		
Sanitation Billing	\$232,365	262	Recycle billing excludes street sweeping, leaf collection, etc. These services are part of Municipal Billings.	
- Garbage Cart Returns (Monthly)	\$7,343	58		
- Recycle Billings (Monthly)	\$179,642	48		
- Weed Removal	\$13,344	91		
- Snow Removal	\$1,199	16		
- Cart requests (Daily)	\$6,838	23		
- Miscellaneous Billings	\$24,001	26		
Infrastructure Billing (Projects)-ENG	\$455,843	45		
- Inspection Services-MMSD	\$196,861	7		
- Misc Outside Billings-Engineering	\$254,751	33		
- Test Labs	\$4,231	5		
Streets/Bridges/Sewer Billings	\$86,199	69		
- Streets/Bridge/Sewer Repairs	\$51,809	26		
- Street Emergency Repairs	\$34,391	43		
Buildings & Fleet Billings	\$113,900	47		
- External Phone Reimbursables	\$17,154	12		
- Police Call Box Repairs (Daily)	\$8,264	6		
- Underground Cable Repairs (Daily)	\$88,483	29		
Parking Billings	\$905,211	200		
- Parking Lot Rentals (Contractual)	\$886,127	185		
- Meter Damages (Daily)/Misc Billings	\$19,083	15		
Board Up Billing System	- Board Up Billings (Daily)	\$471,654	2357	The Boardup program is fully computerized in that it does not require data from any other system. It is linked to the City Assessors website for property information.
	- TOTAL BILLINGS	\$4,808,820 ¹	4385	

Submitted By: Dan Rotar (REVISED (7/2/03)
Prepared By: Nateida Jarnigan (9/03)

¹ Excludes State and Federal Billings which are processed via the Comptroller's Office.

DPW Billing Authority

System Type	Services Billed (Frequency)	Authority	
Job Order/Invoice System	Fleet Billings (Daily) - Vehicle Damage Repairs - Sewers - Bridges - Streets	Statutes Ch.66, Charter Ch.7.05	
	Electrical Services Billing (Daily) - Repairs to Traffic/Street Lights - Repairs to Traffic Signs - Conduit Rental (and other misc bills) - Contractor Damages - Sale of Material Billings - Contractor Service Requests - Electrical Energy Billings (Weekly)	Statutes Ch.66, Charter Ch.7.05 Statutes Ch.66, Charter Ch.7.05 Contractual Contractual Contractual Contractual Inter-Gov. Agreement	
	Forestry Billing (Daily) - Tree Repair/Replacement - Tree Planting - Pruning/Encroachments	Statutes Ch.66, Charter Ch.7.05 Charter Ch. 11.03 Charter Ch. 11.02	
	Sanitation Billing - Garbage Cart Returns (Monthly) - Recycle Billings (Monthly) - Weed Removal - Snow Removal - Cart requests (Daily) - Miscellaneous Billings	Charter Ch. 11.02 Charter Ch. 11.02 Charter 11.32 Charter 11.24 Charter Ch. 11.02 Statutes Ch.66, Charter Ch.7.05	
	Infrastructure Billing (Projects)-ENG - Inspection Services-MMSD - Misc Outside Billings-Engineering - Test Labs	Contractual Contractual Contractual	
	Streets/Bridges/Sewer Billings - Streets/Bridge/Sewer Repairs - Street Emergency Repairs	Statutes Ch.66, Charter Ch.7.05 Statutes Ch.66, Charter Ch.7.05	
	Buildings & Fleet Billings - External Phone Reimbursables - Police Call Box Repairs (Daily) - Underground Cable Repairs (Daily)	Inter-Gov. Agreement Statutes Ch.66, Charter Ch.7.05 Statutes Ch.66, Charter Ch.7.05	
	Parking Billings - Parking Lot Rentals (Contractual) - Meter Damages (Daily)/Misc Billings	Contractual Statutes Ch.66, Charter Ch.7.05	
	Board Up Billing System	- Board Up Billings (Daily) - TOTAL BILLINGS	Charter Ch. 11-28 & 11-36 Ord. 309-7-1

Process Descriptions:

Job Order:

Orders for service are originated in the field by first logging in the type of service on the field service log and assigning a work order number (reimbursable number). The various departments involved will input this information into the Job Order/Invoice system and a Job Order Form is created.

Upon completion of the work, the Job Order form is to be signed off by the field supervisor indicating that the job has been completed. DPW Administration and Operations billing staff manually input material and labor costs for the job (via FMIS query). As soon as this information has been input into the Job Order program and the review for proper sign off has been completed, the DPW billing staff produces through the invoice portion of the system. The invoice is then mailed to the responsible party(s).

Payments are returned to the Treasurers Office. An electronic file is emailed to DPW – Admin biweekly with all recently paid invoices. This file is downloaded into the invoice portion of the system to post all coupon payments. The individual who created the bill and the Business Operations Manager handles those invoices that are questioned or require negotiation (i.e. insurance settlements).

Any outstanding invoices after 45 days are either:

1. Sent to Kohn Law Firm if amount is greater than \$100.00
2. Sent to DPW Contracts if debtor has a current City contract that can be used to offset costs.
3. DPW – Admin will also work with municipalities/contractors to bring resolution prior to forwarding to Kohn Law Firm.

Peregrine System:

The Peregrine System is an equipment management system purchased by the City from Maximus, Inc. This system tracks every piece of equipment that DPW is responsible for. Part of this system tracks repairs to equipment. When a piece of equipment has been damaged (i.e. accident) the cost of labor & parts to repair and/or any outside vendor cost are accumulated in this system.

A monthly report is prepared and transmitted to DPW Administration for invoice processing. A separate invoice is generated through the Job Order/Invoice System and mailed to the appropriate party. A delay in this process may occur, if the MPD or the City Attorney has not identified the responsible party. Collections are handled as stated above.

Annually, an extract costs accumulated for each piece of equipment is prepared to assist in setting equipment rental rates for the next year. Once determined, these rates are transmitted to DPW – Administration and input into the Job Order/Invoicing System.

Board-Up System:

A separate system has been developed by DPW – Administration to track and invoice board-ups of buildings in the City. DPW Administration receives board-up orders from two sources. One, the MPD, will order board-ups for emergency safety measures (i.e. a fire or drug house). The other, DNS will order board-ups for code violations and vacancies. Once received, “on-call” carpenters are contacted by the City Hall Operator (MPD calls) or by DNS, to perform the service. A “board-up data sheet” is then completed by the officer (MPD board-ups only) and the carpenter on site. Included on this form is the number of hours worked, amount of supplies used, date and time of service.

Completed service orders come back to DPW administration, where the data is entered into the system. An invoice (letter) is issued to the tax payer/property owner requesting payment. If payment is not received the balance is kept on the system until the end of each August. All amounts that are unpaid at that time are transferred to the Property Tax Rolls.

The DPW Administration person who enters all information into the system receives payments first. This individual enters any payments into the Board-up Program and is also responsible for any board-up cancellations. The checks are then forwarded to another DPW – Administration employee who prepares the deposit and forwards to the Treasurer’s Office.

Direct Invoicing:

Items such as conduit rental, property leases and other contractual payments are handled slightly different. DPW Administration prepares an invoice directly from the Job Order/Invoice System.

State and Federal Transportation Funding:

The City will request funding for various projects throughout the City in an annual request submitted to the State. This request will identify each and every project by a project number and include an estimate of cost by each project. If the State approves the work, the State will advance combined state and federal funding based upon the estimates submitted annually, approximately \$7,500,000 per year.

Annually (around January), the City, through the Comptroller's Office – Revenue and Cost Division will provide the state with a report of expenditures versus advances based on information from the City's FMIS. Included with this report is an invoice to the State for 100 percent state funded projects (where no advance has been received).

Municipalities other than the City of Milwaukee must provide the State with copies of all cost invoices along with engineering report to support the report of expenditures.

The State receives the report and distributes copies to all State project engineers that were involved with the various projects. The State engineers will review the costs submitted for reasonableness and approve for payment or identify those projects that costs appear questionable. This process usually takes 2 to 3 months to complete. The State sends a reconciliation report back to the City, indicating accepted costs and questioned costs.

DPW receives the State reconciliation report and copies it to all project engineers involved with the various projects. These engineers will take the questioned project costs, pull the support documentation and prepare a response to the State. In essence, DPW staff is performing the State's cost audit work. The process usually takes an additional 2 to 4 months. Once satisfied with all costs, a copy of the reconciliation is sent to the Comptroller's Office along with a check for the 100 percent funded projects, usually \$7-800,000 per year. Any cost adjustments are made to the next years funding allotment.

There are no written policies or procedures covering this process. Since the retirement of the business manager of the DPW Infrastructure Electrical Section, some documentation and process has been lost and has had to be reinvented (still not in writing). Reconciliation of certain traffic signal/electrical project has be substantially delayed due to a lack of written procedures and a lack of knowledge of the location of specific records.



Appendix 4

**Department of Public Works
Administration Division
Billing Audit (2003) - Glossary Terms**

Term	Definition
Peregrine System	Vehicle & Equipment Management Program
Board-up Billing System	DPW-developed application used to record information regarding Police and DNS ordered Boardups
Job Order System	DPW-developed application used to internally track project work. Interfaces with the DPW-Invoice Program
Invoice System	DPW-developed application used to create and administer externally-billed invoices
Work Order Number	Number assigned to a particular project (repair) that is used to track labor, material, and equipment costs
Project Billings	Billings (invoices) associated with a specific Project (or Work Order).
Manual Billing	Billing which requires queuing of multiple systems (Excel, FMIS, etc.)
Contractor Damages	Damages to City property caused by a Contractor (versus a citizen).
Contractor Service Requests	Work done by the City which was specifically requested by a Contractor (example: relocate street lighting units)
Recycle Billings	Billing of other municipalities for the use of the City's Recycling Center at 1313 W. Vernon
Inspection Services-MMSD	Inspection services for work associated with MMSD construction projects
Misc. Outside Billings-Engineering	Various design, engineering, surveying, and inspection services for private parties.

Submitted By: Dan Rotar (7/3/03)

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DEPARTMENT RESPONSE

COMPTROLLER

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Department of Public Works

Mariano A. Schifalacqua
Commissioner of Public Works

James P. Purko
Director of Operations

November 18, 2003

Mr. W. Martin Morics
Comptroller
Office of the Comptroller
Room 404, City Hall

Dear Mr. Morics:

We have reviewed the "Audit of the Department of Public Works Billings and Collections" conducted by your office. Attached please find the Department of Public Works' response to the audit findings.

We appreciate the opportunity to respond. If you have any questions, please contact Dan Rotar at extension 2766.

Very truly yours,


Mariano A. Schifalacqua
Commissioner of Public Works

Attachment

c: Dorinda Floyd
LaQuisha Harrell
Dan Rotar

Department of Public Works Response
Audit of the Department of Public Works Billings and Collections

In 2000 the City implemented the PeopleSoft Financial System. However, an invoice/accounts receivable module was not included as part of this system. Due to the large number of invoices that DPW creates annually (approximately 2,000) and a reorganization of administrative staff, DPW had to develop an automated billing system that was less time consuming and more efficient. This system, which was created in 2000, was developed by DPW staff and is regularly modified to meet the department's financial management needs. To date, there is no citywide accounts receivable system.

The DPW-developed invoice/accounts receivable system does not interface with FMIS. Due to this lack of interface, much of the invoice process is still manual. A fully interfaced system would make the invoice/accounts receivable process more efficient for both user departments as well as for the Comptroller's Office.

In addition, citywide standards and policies need to be developed by the Comptroller's Office to assist not only DPW but also all City departments in administering the accounts receivable process. Providing a general overview of good business standards and practices concerning accounts receivable would assist departments in the creation of their own standards and policies. Parameters should be established for City departments on matters such as acceptable processing times and collection policies based on normal business standards. This general overview would then give departments the basic framework to develop their own internal policies and procedures related to the accounts receivable process that meet or exceed the industry standard.

To summarize, the Department of Public Works believes that there needs to be a holistic approach to accounts receivable issues. Most of the issues are citywide in nature and would be more appropriately facilitated by the Comptroller's Office. The Department of Public Works is willing to assist the Comptroller's Office in this endeavor.

Recommendation 1: The time period required for the batch processing of certain bills can and should be shortened.

As a result of this audit, DPW-Administration and DPW-Electrical Services staff have adjusted the time period from monthly to weekly for internal batch processing of traffic and street lighting damage billings. However, in order to minimize the processing time for these billings, changes would need to be made regarding the processing of accident reports by the Police Department and the City Attorney's Office.

At the time of an accident involving City property, an accident report is created by the Police Department detailing the specific damages and the parties involved. A hard copy of the report is forwarded to the City Attorney's Office to identify all responsible parties that should be billed by DPW. After some time, this report is batch-processed and

Mr. W. Martin Morics

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mailed to DPW. Currently, these reports are received by DPW within 1-4 weeks after the accident occurs. A reduction in this batch processing time would greatly assist DPW in minimizing the amount of time it would take to bill for street and traffic light damages. In addition, due to the necessity of the City Attorney's Office to review the accident report to identify billable parties, it would not benefit DPW to receive this report directly from the Police Department.

DPW has previously met with the City Attorney's Office regarding the handling of these reports, which did result in a small reduction in the processing time of these reports. DPW will continue to work with both the City Attorney's Office and the Police Department to continue to improve the timeliness of receiving these reports.

Recommendation 2: Wherever feasible, eliminate the time consuming labor cost accumulation now required by utilizing standard costs.

DPW agrees with the audit findings that standard costing may, in some cases, reduce the amount of time needed to create an invoice. Currently, with no interface between the DPW-developed invoice/accounts receivable system and FMIS, a single query is run in FMIS to obtain labor and material cost information. The actual time needed to run this query is minimal. However, when there are delays in the posting of this information in FMIS (this is the responsibility of the Comptroller's Office) or adjustments need to be made by DPW, the creation of an invoice could be delayed. Unfortunately, with over 2,000 invoices processed annually, labor cost adjustments are necessary for some billings. The manual processing of labor adjustments is inefficient and labor-intensive and has an adverse effect on the timeliness of the billing. Therefore, as an alternative to automating the labor cost adjustment process, standard costing is an option that would avoid the need to rely on timely posting of costs/adjustments.

It should be noted that if standard costing is utilized, there might still be a delay in the billing process due to the time needed to currently receive a "City Attorney reviewed" police report. Further, additional work will be required at the end of the year to clear out all remaining balances in reimbursable accounts. This would involve not only DPW staff, but also Comptroller Office staff to "balance out" over 1,300 reimbursable accounts through manual entries into FMIS.

Nonetheless, DPW will work with the Comptroller's Office to identify billings that would be good candidates for standard costing.

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Recommendation 3: DPW should initiate a major effort to re-examine, update, and formalize its billing and collection practices through a comprehensive DPW Billing and Collection Policy and Procedures Manual.

DPW has worked to update its billing procedures despite many changes in its billing processes. The development of the new DPW Job Order/Invoice System made all previous process documentation obsolete. With system changes continuing on a regular basis, it is always a challenge to maintain sufficient and current system documentation. Nonetheless, DPW agrees to expand its existing billing procedural manual to include those listed under this recommendation.

Recommendation 4: DPW should consider for introduction to the Common Council a resolution that would empower DPW to charge late fees and penalties.

DPW agrees to consider the possibility of charging late fees for nonpayment. However, due to the lack of an interface between FMIS and the DPW-developed invoice/accounts receivable system, the time-consuming task of administering such a provision may be costly. Tasks that would need to be completed in order to implement this proposal include modifying the invoice, mailing the invoice, forwarding a reconciliation report to the Comptroller's Office and manually entering the penalty revenue into FMIS (this would be the responsibility of the Comptroller's Office). Until an interface exists, the late fees charged may need to be significantly higher than the recommended 3% in order to cover the City's costs of administering this provision.

It should be noted that there is a lower probability of collecting payments on invoices that are 30-days delinquent. Clearly, a number of the delinquent invoices will never be collected. Many of the 30-day delinquent invoices are for individuals who have no insurance and may not have the financial ability to pay the invoice and/or the late fees. The amount of any standard penalty charge should take this into account. In addition, in contrast to the Municipal Services Bill, billed damages to City property are of a "one-time" nature and thus, the penalties cannot be billed on future invoices. These charges cannot be placed on the property tax roll unlike unpaid charges on the Municipal Services Bill.

Finally, the audit suggests an additional penalty for invoices that are 60-days delinquent. This would have an impact on our current policy of sending the majority of delinquent bills to the Kohn Law Firm within 45 days. This would either require DPW to assess penalties while the file is at the Kohn Law Firm, or to extend the holding period to at least 60 days (or more) prior to sending the bill to Kohn for collection.

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In short there may be some billings that would benefit from late payment penalties. DPW will work with the Comptroller's Office to identify these types of billings.

Recommendation 5: DPW should develop basic periodic reporting to assist in the tracking of bills and collections for all types of billings.

DPW has created numerous reports within the Invoice and Boardup Programs that assist in the tracking of both invoices and boardups. Several of these reports are provided periodically to both the Finance and Planning Manager and the Director of Administrative Services.

Based on discussions with the audit staff, it appears that the primary report in which staff is recommending DPW develop is an aging report of invoices that have been submitted to the Kohn Law Firm for collection. DPW will work with Kohn to develop such a report.

In addition, it should be noted that data regarding DPW billings and collections is provided annually to the Common Council by the Comptroller's Office as part of its Citywide Miscellaneous Accounts Receivable Activity Report.

Recommendation 6: DPW should strengthen its managerial review of data input to the systems (i.e. overhead, etc.).

DPW places the level of managerial review at a point where it assures accurate billings without adversely affecting the timeliness of the billings. According to the audit findings, "based on an audit sample, across all billing types and without exception, DPW billings to external parties were found to be accurate". Based on this conclusion, DPW is comfortable with the level of managerial review now being given to assure accurate billings. DPW managerial staff will continue to oversee the billing process by utilizing FMIS queries and maintaining/improving internal controls within the Job Order/Invoice System.

One internal control modification that will be made as a result of this audit would allow only management to override central services overhead rates that are currently contained in the Invoice program (rates are in accordance with those set by the Comptroller's Office). This change will be documented in the department's Billing and Collection Policy and Procedures Manual.

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Regarding Recommendation 6b, all DPW-Fleet Services equipment rental rates are annually reviewed and maintained by the Quality Assurance Coordinator and are approved by the Fleet Services Manager. In addition, the Fleet Services Division documents the procedures used in the annual review of rental rates.

Recommendation 7: For all Board-up billings and collections, DPW should separate the responsibilities for billing, collection, and recording to three different individuals.

DPW is currently working with the City Treasurer's Office to have the Treasurer's Office receive payments for board-up charges. The Treasurer's Office will provide an electronic file to the DPW-Administration Business Operations Manager who will download the payment data directly into the Board-up Program.

Recommendation 8: DPW should examine the feasibility of integrating its billing and collection systems with FMIS.

DPW has long-supported and advocated for a citywide accounts receivable system with full integration with FMIS. This would greatly reduce the amount of manual data entry that is presently required (including the elimination of all cost/overhead data entry). In addition, the redundant manual entry of invoice data into FMIS by the Comptroller's Office would be eliminated. This would result in more accurate and timely information in FMIS which would assist in more timely tracking of revenues by DPW.

As stated earlier the Department of Public Works believes that there needs to be a citywide approach to accounts receivable issues, which would be more appropriately facilitated by the Comptroller's Office. The Department of Public Works is willing to assist in this effort.

Recommendation 9: DPW should consider providing Lessors with coupons for payment at the beginning of the year, eliminating the need to create invoices through the Job Order/Invoice System.

Real estate leases such as parking lot leases require monthly lease payments. DPW-Administration provides the lessee an invoice for three months rent. This is done to reduce the number of invoices that need to be created and to allow the lessee to prepay the second and third month if they choose (even though they are not contractually required to do so).

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If Miscellaneous Accounts Receivable (MAR) invoices are eliminated and payment coupons are utilized, DPW would not be able to use its existing invoice system to administer and track payments. A new system would have to be developed to allow for the creation of payment coupons (with an electronic scan line), the ability to track non-payments, and the ability to receive electronic notification from the City Treasurer's Office regarding lessee payments. Since DPW already has the ability to track payments in the current invoice system, DPW feels it would not make sense to sacrifice this functionality for the benefit of reducing the number of invoices. In addition, it is our understanding that the Comptroller's Office prefers to expand the number and type of MAR billings. Under this recommendation, these billings would no longer be treated as MAR billings.

Based on our discussions with audit staff, it appears that the primary goal of this recommendation is to separate the "pre-paid" parking invoices from the rest of DPW's standard invoices in regards to aging reports. To achieve this goal, DPW will modify its current electronic reports to separate parking invoices from all other DPW billings.