



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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January 3, 2018

Mr. Jerry Gamez, Director
Placer County Administrative Services Department
2962 Richardson Drive
Auburn, CA 95603

Re: Revenue Services Review

Dear Mr. Gamez:

The Internal Audit Division of the Auditor-Controller's Office recently performed a review of the Revenue Services Division (Division), a division of the Administrative Services Department (Department) for the period July 1, 2016 through June 30, 2017. The objectives of our review were to obtain an understanding of the Division's collection policies and procedures, internal controls, and collection fee methodology; determine whether the Division is performing collection procedures in accordance with Division and County collection and cash handling policies and procedures, and in compliance with applicable accounting standards, laws, and regulations; determine the reasonableness and accuracy of rates being charged by the Division for collections; provide an assessment of old and uncollectible receivables to determine that the write-off process is being performed adequately; and make recommendations for improvement.

We reviewed records, documents, policies, procedures and various guidelines. We interviewed staff at the Division and Department and spoke with other County departmental staff, as necessary. As a result of our review, we noted areas where internal controls could be strengthened and operating policies and procedures could be improved. Our summary of observations and recommendations is as follows.

Summary of Observations and Recommendations

Administrative Fees/Installment Fees

Based on our testing, we noted the Division was assessing a \$30 fee for the processing of the court accounts receivable that are not paid in installments (administrative fee) and a \$35 fee for the processing of installment accounts (installment fee) pursuant to a 1996 Board of Supervisors approval and Penal Code 1205 which had been subsequently amended. The Department has not performed a cost analysis since the 1996 Board of Supervisors approval of the fees to determine if the fees equal the current administrative and clerical costs as required by Penal Code 1205(e). The Department may be overcharging or undercharging fees for the processing of court-ordered debt accounts.

We recommend the Department take the following actions:

- Perform a cost analysis to determine the actual administrative and clerical costs for the processing of administrative and installment fees;
- Obtain Board of Supervisors approval of updated processing fees for court-ordered debt accounts as required;
- Update the approved fee schedule within the Division's CUBS collection system;
- Update the Uniform Method of Calculating Ability to Pay Fees spreadsheet utilized by the Division to accurately reflect the current codes and any changes in the fees approved by the Board of Supervisors.

We also recommend, the Division routinely review all laws and regulations pertaining to the collections of court-ordered debt and perform an annual assessment of actual administration and clerical costs.

Department's Response:

The Administrative Services Department acknowledges the findings pertaining to the administrative and installment fees assessed to court-ordered debt accounts and will perform a cost analysis to determine actual administrative and clerical costs. Once these updated fees have been identified the Department will ensure the subsequent actions being recommended are followed including performing assessments of actual administration and clerical costs on an annual basis.

County Uncollectible Accounts

During our review, we noted the Division is not following the Placer County Accounting Policies & Procedures section for "Accounts Receivable and Delinquent or Uncollectible Accounts" (page 17, bullet point 5), which states: "When the private collection agency has deemed the account uncollectible, Revenue Services will notify each County Department".

The Division last updated its uncollectible accounts in February 2016 and had approximately \$1.9 million of County departmental accounts deemed uncollectible dating back as far as 1991 and most recently as of 2005. The Division has no current process in place for staff or management to refer accounts deemed uncollectible back to their respective departments for write-off. This practice would ensure that departments are notified of uncollectible accounts in a timely manner so departments may apply for discharge from accountability on delinquent accounts deemed uncollectible.

Subsequent to our review of County uncollectible accounts, the Division stated they were reviewing the accounts monthly, but were not notifying applicable departments of their uncollectible accounts. However, we were unable to obtain sufficient support from the Division to support their claim of the performance of monthly reviews.

We recommend the Division establish procedures for staff or management to perform a monthly review of delinquent accounts to determine the likelihood of collection and follow County Policies and Procedures related to accounts that are deemed uncollectible. We also recommend the Division prepare an aging report by department and work with the Auditor-Controller's Office to determine the amount, if any, is currently recorded in the County's financial system.

Department's Response:

The Administrative Services Department acknowledges the findings pertaining to the process for staff or management to refer accounts deemed uncollectible back to their respective departments for write-off.

The Administration Accounting Division produces and distributes monthly Inventory Reports by Department on behalf of the Revenue Services Division. These reports include account number, debtor name, date assigned, original balance, amount collected to date, outstanding balance, payment schedule, and last payment received date information. However, some Departments have provided special instructions pertaining to the distribution of these reports including waiving the receipt of reports on a monthly basis or only sending copies of the report when payments are received. The Department will ensure that the distribution of monthly reports is in accordance with Placer County's Accounting Policies & Procedures.

During the past seven years, the Revenue Services Division has contracted with two different collection agencies and accounts have not exceeded the period to deem accounts uncollectible with either firm. Therefore, accounts were never referred back to Departments in accordance with the County's Accounting Policies & Procedures.

The Department will identify and implement the necessary processes and procedures to deem accounts uncollectible and refer back to their respective department for write-off in accordance with the County's Accounting Policies & Procedures prior to the end of each fiscal year.

Court Uncollectible Accounts/Discharge of Accountability

During our review, we determined the Division has not established and consistently followed a process for handling the discharge of accountability for uncollectible court-ordered debt as recommended by the Judicial Council Approved Collections Best Practices #10 – “Establish a process for handling the discharge of accountability for uncollectible court-ordered debt”. Court and County collection programs have authorization, under Government Code sections 25257 – 25259.95, to discharge outstanding debt from accountability if the outstanding amount is too small to justify the cost of collections or the likelihood of collection does not warrant the expense involved. We noted the Division has no current process in place for staff or management to periodically review and update uncollectible accounts to refer back to the Court for discharge of accountability. Also, we were not able to determine the current dollar amount of uncollectible Court accounts as the Division has not performed an assessment of the collectability of accounts since 2016.

We recommend the Division perform an assessment of the collectability of Court accounts and submit all accounts deemed uncollectible to the Court on an annual basis. We also recommend the Division continue discussions with the Court to write off eligible accounts deemed uncollectible which are referred back to the Court.

Department's Response:

The Department agrees with this finding. However, Government Code Sections 25257 – 25259 do not provide a recommended time period for discharging court ordered debt. The Judicial Council's Revenue and Collections Unit recommends discharging of debt on an annual basis as part of their 25 Approved Collection Best Practices. During the past several years the Revenue Services Division has met 24 of the Council's 25 Best Practices for collection programs with the annual discharge of accountability process being the only practice not being followed consistently since the Division has not submitted a discharge of accountability request dating back to May 2002.

Staff has now identified and implemented the necessary processes and procedures to deem accounts uncollectible before the end of each fiscal year and ensure compliance with the Judicial Council's recommended practices.

On November 14, 2017 the Placer County Board of Supervisors adopted Resolution No. 2017-222 authorizing the discharge of accountability of court ordered debt totaling \$20,347,366 in accordance with Section 25259 of the California Government Code.

Cost Recovery

Based on our testing of the comprehensive collection program cost recovery method used by the Division during FY2016/17, we noted the Division's calculation for claimable cost percentage contained outdated employee data and fixed percentages of employee time working on qualified program collections. To determine the sufficiency of the percentages of employee time used in the calculation, we performed an analysis of Division employees' time using ACORN time data and determined the percentages used were substantially greater than recorded in ACORN. Due to the Division utilizing outdated data and fixed percentages to calculate claimable costs, the Division's calculation of claimable program collection costs did not reflect the actual current costs for the period.

We recommend the Division develop a methodology in its claimable cost calculations to include actual employee time spent on eligible collections and if supervisory time is allocated, be able to support supervisory staff time percentages with cost allocation documentation.

Department's Response:

*The Administrative Services Department acknowledges the findings pertaining to the cost recovery methodology utilized by the Revenues Services Division included outdated employee data. However, the cost recovery methodology was developed in accordance with Penal Code Section 1463.007 – Staff Costs which states, "Duty statements, time sheets, or **other means of documentation are necessary to substantiate the percentage of time an employee or supervisor spends performing eligible comprehensive collection activities.**"*

The Revenue Services Division utilized a cost recovery methodology based on a percentage of time an employee or supervisor spent performing eligible collection activities. The methodology to obtain the claimable cost percentage was based on the allocation of labor costs (salary & benefits) designated to court collection activities and the total number of active/allowable accounts. Once the claimable cost percentage was identified, it was utilized to calculate the monthly claimable program collection costs. Example: Claimable cost percentage x Total monthly expenditures less non-allowable costs = Monthly total claimable amount.

Effective July 1, 2017 the Division's cost recovery methodology to calculate claimable costs is no longer based on a fixed percentage formula. The cost recovery methodology to calculate claimable costs by the Division is now based on defined duties (Duty statements), time sheets (ACORN/PAS), and other allowable expenditures.

Employee Time Entry

Based on our testing and discussions with the Division Manager, we noted Division employees were not accurately recording actual time in ACORN. In order for the Division to develop a methodology to utilize time sheets for cost recovery, employees' time cannot be based on budgeted projections as it does not support the actual personnel costs of program collections. The Division currently does not have an accurate time recording methodology in place and is unable to accurately calculate the labor/benefits cost of performing program collection activities.

We recommend the Division establish a time recording methodology that accurately reflects the actual time an employee spends performing program collection activities. The Standards recommend maintaining time sheets for employees spending less than 100% of their time on program collections or by supporting personnel costs by other means of documentation. Each time sheet must account for all hours worked by the employee for the period.

Once the Division establishes an accurate time recording methodology, the Division should be able to accurately calculate the labor/benefits costs of performing program collection activities.

Department's Response:

*The Administrative Services Department acknowledges that budgeted projections were utilized to develop cost recovery data. The methodology to obtain the claimable cost percentage was based on the allocation of labor costs (salary & benefits) designated to court collection activities and the total number of active/allowable accounts and was in accordance with Penal Code Section 1463.007 – Staff Costs which states, "Duty statements, time sheets, or **other means of documentation are necessary to substantiate the percentage of time an employee or supervisor spends performing eligible comprehensive collection activities.**"*

Effective July 1, 2017 the Division utilizes employee time sheets (ACORN) data to document the time an employee spends performing program collection activities.

Collection Revenue Distribution

Based on our testing of the Division's collection revenue distribution percentage calculation used during FY2016/17, we noted the distribution percentage was based on a calculation of claimable program collection costs which did not reflect the actual current costs for each period. Thus, revenue distributed during each period may not accurately reflect the actual net revenue to be distributed.

Once the Division implements the recommendations related to cost recovery and employee time entry, we recommend the Division review the claimable costs calculation to ensure the distribution percentage is accurate.

Department's Response:

The Department is in agreement with this finding. The Revenue Services Division's calculation of claimable program collection costs methodology utilized was based on a budgeted percentage of time an employee or supervisor spent performing eligible collection activities.

On July 1, 2017 the Division transitioned to the utilization of employee time sheets (ACORN) data to document the time an employee spends performing program collection activities. The utilization of employee time entry data shall identify actual costs and accurately align distribution percentages.

Comprehensive Collection Program Monthly Reports

Based on our testing of the comprehensive collection program qualifications during FY2016/17, we noted the Division is not completely satisfying subsection (c)3(C) of Penal Code Section 1463.007, "Generates internal monthly reports to track collections data, such as age of debt and delinquent amounts outstanding." This criteria is required to operate as a comprehensive collection program. We noted the Division does generate some monthly and quarterly reports, which include age of debt for accounts collected on during the period, amounts collected during the period, and amounts outstanding for accounts collected on during the period. However, the aging report generated, which includes delinquent amounts outstanding, only provides data for accounts that were successfully collected on during a quarter and do not include all active qualified (as part of the comprehensive collection program) accounts.

We recommend the Division generate internal monthly reports to track collection data, for debt subject to collection by a comprehensive collection program, which include age of debt and delinquent amounts outstanding for all active qualified accounts.

Department's Response:

The Department is in partial agreement with this finding. An Inventory by Fiscal Year Report was provided to the Courts on a quarterly basis through March 2016. At that time, the Court's Administrator requested changes to the report that included additional information by account types and up to the threshold period an active account was eligible for discharge. The Revenue Services Division engaged its vendor to assist with developing this custom report. A draft copy of the revised report was provided in November 2017 for review and feedback from the Court Administrator. Additional guidance was provided and final changes are expected to be completed by January 2018.

Collection Fees

During our review of the Division's collection fee structure, we noted the Division was unable to provide support for the calculation of the fees charged to departments for collections services. We also noted the fees have not been reassessed and have remained the same dating back to the Revenue Services audit performed in 2003 by Macias Gini & Company, LLP. As such, we were unable able to determine the reasonableness of the fees charged to departments and the Division may be over or undercharging departments for collection services.

We recommend the Division follow the procedures of the *Placer County Charge-Out Rate Policy* (Policy) to calculate the fees, rates, or charges associated with the services provided. This enables the Division to develop an accurate and complete charge-out methodology to ensure other County departments are not being over/under charged for services provided. The results of this calculation as outlined in the Policy, should be submitted to the Auditor-Controller's Office, with supporting documentation, for review and comment pursuant to the Policy 2.0 PROCEDURE.

Department's Response:

The Department is in agreement with this finding. The percentage rate utilized to calculate the fees charged to departments for collection services was established in July 2003 and has been the rate utilized through the current fiscal year.

The Revenue Services Division, in collaboration with the Auditor-Controller's Office and the County Executive Office, will take the necessary steps to update the collection fees charged to departments in accordance with the County's Charge-Out Rate Policy within the audit's follow up review period.

Cost Allocation Methodology

During our review of the Division's cost allocation methodology, we noted the General Collections OCA used in the Division's cost allocation calculation incorporates costs associated with the direct service to provide Human Resource benefits billings (Billings). Due to the Division including billing costs with general government collections (Collections) costs and employees not tracking actual time spent on Billings and Collections, the Division may be over/under allocating cost of collections within the Placer County Cost Allocation Plan (Cost Allocation Plan). Additionally, the Division is not following requirements of the *Handbook of Cost Plan Procedures for California Counties* (Handbook) from the California State Controller's Office, Section 2230: General Billing Requirements, which states, "A concise and complete description of the method used to develop the billing rate or rates used in charging for services." The rates for direct billed collections which are included in the Divisions cost plan calculations are not substantiated with supporting documentation.

We recommend the Division establish a mechanism to track actual costs to process Billings separate from Collection costs. We also recommend the Division implement a policy to track actual time spent by employees on Collections in order to properly identify and allocate direct and indirect costs to the Allocation Plan for collection services provided. This ensures that costs allocated for collection services within the Allocation Plan are accurate. Additionally, after the Division develops an accurate rate methodology, we recommend the Division follow the requirements outlined in Section 2230 of the Handbook. We further recommend the Division obtain MOU's for Billings and Collections for a term of one year and have them reviewed and renewed on an annual basis prior to expiration of the agreement.

Department's Response:

The Department is in partial agreement with this finding. The percentage rate utilized to calculate the fees charged to departments for collection services was established in July 2003 and has been the rate utilized through the current fiscal year.

The Revenue Services Division, in collaboration with the Auditor-Controller's Office and the County Executive Office, will take the necessary steps to update the collection fees charged to departments in accordance with the County's Charge-Out Rate Policy and ensure expenditures are recorded by the collection program activities.

In addition, current MOU's will be updated to reflect scope of services provided, roles & responsibilities, deliverables, cost recovery methodologies, contractual periods, contact information, and related terms. New MOU's will also be developed and executed with County Departments as being recommended.

Human Resource Billing Costs

During our review, we noted the Division does not track employee time spent specifically on HR billings services provided and is allocating the cost of these services within the General Collections OCA, thus the cost of these services are being allocated to other departments within the Allocation Plan for Collection Activities. Due to the Division's current allocation method for costs of HR billings services, County departments are being over allocated costs associated with a direct service between the Division and HR.

We recommend that the Division create a separate OCA for HR billings to accurately track the time spent by employees on HR billings services to assist in identifying direct costs, along with indirect costs, which should then be allocated or directly billed to HR.

Department's Response:

The Department is in partial agreement with this finding. The percentage rate utilized to calculate the fees charged to departments for collection services was established in July 2003 and has been the rate utilized through the current fiscal year.

The Revenue Services Division, in collaboration with the Auditor-Controller's Office and the County Executive Office, will take the necessary steps to update the collection fees charged to departments in accordance with the County's Charge-Out Rate Policy and ensure expenditures are recorded by the collection program activities.

Human Resource Benefits Billing Language

During our review of Human Resource (HR) benefits billings, we noted the wording on the monthly Benefit Letter to employees and retirees on behalf of HR seems slightly misleading. In particular, the wording stating the referral of the account to Revenue Services with no further explanation as to why, as well as placement and wording of "Total Amount Due" (located at the top of the letter in bold letters) which could be misleading and construed as the amount due currently instead of "Your Monthly Payment Of..." (located in the body of the letter).

We recommend that the Division review the wording of Benefit Letters to convey the message that a service is being provided on behalf of the HR Department. Also, the Division should review the wording and placement of the amount due currently and total balance remaining to avoid confusion about the monthly payment amount due.

Department's Response:

The Department is in agreement with this finding. Benefit Letters have been revised and forwarded onto Human Resources for review/approval. Updated letters will replace outdated letters effective January 1, 2018.

Record Retention

During our review of the Division, we noted that the Division did not retain supporting documentation for the following:

- A contract between the Division and the Probation Department for the implementation of an 11% collection fee for collection services provided by the Division.
- A Memo/Correspondence from the Superior Court of Placer County dated March 1, 2011, granting the Division approval to reactivate and collect on delinquent debt that was previously submitted to the Courts for a discharge of accountability.

We recommend the Division maintain documentation in accordance with the County of Placer Countywide Accounting and Administrative Records Retention Schedule (CAAR). The CAAR provides the retention period requirements by document type and should be used by the Division for maintaining the Division's documents and records. The CAAR states that the Division is to maintain contracts for seven years after the completion of a contract, and correspondence that

support policy or a decision making process is to be maintained permanently by the originating department.

Department's Response:

The Department is in agreement with this finding and will implement the necessary procedures to ensure compliance with the County' Accounting and Administrative Records Retention Schedule.

Account Adjustments Reviews

Through inquiries with Division staff, we noted all Account Clerks have the ability to make adjustments to accounts if necessary within CUBS. The Accounting Technician is the only staff member who performs the daily review of all account adjustments that were made in the CUBS system during the day. In the absence of the Accounting Technician or when tasked with more urgent matters, daily reviews are not performed, and the potential of missed and uncorrected adjustments increases significantly due to the volume of adjustments.

We recommend the Division assign an additional staff or supervisor to perform the daily review of all account adjustments made during the day to ensure that this review is performed in the absence of the Accounting Technician or when workloads become too demanding. This ensures backup for the position with appropriately trained staff, and provides reasonable assurance that the high-level control environment is functioning effectively.

Additionally, we recommend the Division implement a review process identifying an individual who is responsible for reviewing final adjustments made by the Accounting Technician through month end reports for validity, accuracy, and completeness.

Department's Response:

The Department is in partial agreement with this finding. Daily reviews of account adjustments are the primary responsibilities of the Accounting Technician. However, other accounting staff are trained on the review and processing of account adjustments within the CUBS system. The Revenue Services manager and supervisor are responsible for ensuring staff is trained appropriately and the necessary procedures for the prioritization and distribution of tasks/assignment including the review of account adjustments are made during any employee absences.

Written Collection Policies and Procedures

During fieldwork and discussions with Division staff related to FY2016/17 policies and procedures, we noted the Division does not maintain written collection policies and procedures that include criteria for prioritizing accounts, as well as formal timeframes and parameters in the collection process. Additionally, there are no written procedures for collection agents identifying

job duties and responsibilities relating to the collection process. Lack of written policies and procedures could lead to an increase in the improper or inconsistent practices applied in collection activities and job duties.

Additionally, we noted the Division does not maintain written policies and procedures for accounts with amounts too small to justify the cost of collection. As such, the cost of collections could potentially exceed the total balance due amounts and result in a waste of time, effort, and resources.

We recommend the Division develop written collection policies and procedures that document the collection process and can be used as a guideline detailing the steps necessary to perform collection tasks. In addition, we recommend the Division perform a cost-benefit analysis to determine at what point cost of collections exceeds the balance due amount, and document the results within the Division's collection policies and procedures. This will assist in the efficiency of collections and cost savings.

Department's Response:

The Department is in partial agreement with this finding. Collection strategies are documented and referred to on an as-needed basis to ensure proper prioritization of accounts, timeline parameters for collection activities are met, and ensure collection process parameters are adhered to by staff. These strategies are poster size, located in the Revenue Services Division's workroom, and available to staff. These strategies are updated on an on-going basis and efforts to document them in a desktop (manual) format are underway.

In addition, the Department has incorporated the cost-benefit analysis within the Discharge of Accountability process for determining ROI for collection activities of active accounts.

Transient Occupancy Tax Program Costs

During our review of the Division's costs of administering the Transient Occupancy Tax (TOT) Program (Program), we determined the Division is allocating costs for the Program through the Cost Allocation Plan to appropriation 10850 Tahoe TOT. However, due to Division employees not tracking actual time (employees were entering their time based on budgeted projections and not actual time) spent on administering the Program, there is no basis for determining if direct and indirect costs are being appropriately allocated. As such, we were unable to determine if the Division was able to appropriately allocate the costs associated with the services provided for administering the Program.

We recommend the Division implement a time tracking policy to track actual time spent by employees on administering the Program to properly identify and allocate direct and indirect costs to the Allocation Plan for services provided.

Department's Response:

The Department is in agreement with this finding. The Revenue Services Division is reimbursed for cost of administering the TOT Program based on program cost developed during the budgetary process. Staff time is tracked through ACORN based on employee time sheet information. Effective July 1, 2017 seven Collection Agents are assigned to the Court collection program, two Collection Agents are assigned to the TOT collection program, and one Collection Agent is assigned to the General Department collection program. The assignment of staff by program will significantly improve and streamline time tracking functions within the Division.

Administering the Transient Occupancy Tax Program

During our review of the TOT Program, we noted the Division specializes in collection services for County departments and the Court, but lacks the staffing, time, and resources necessary to effectively and efficiently administer the TOT Program. We also noted within the TOT Ordinance, current penalties for non-compliance, such as failure to remit tax, do not give the Division enough recourse to collect all unpaid TOT.

We recommend the Department dedicate more resources to the administration of the TOT Program, such as full-time staff to assist with management of the program which should include collection, compliance, and outreach training, as well as clearly defining the program and implementing a methodology to allocate the costs of operating the program for full cost recovery. We also recommend updating the TOT Ordinance to include stricter penalties for non-compliance, such as personal or property liens.

Department's Response:

Effective July 1, 2017 seven Collection Agents are assigned to the Court collection program, two Collection Agents are assigned to the TOT collection program, and one Collection Agent is assigned to the General Department collection program. The assignment of staff by program has significantly improved our overall collection operations. However, new TOT Enforcement initiatives have resulted in an increase workload for the Revenue Services Manager, Administrative Fiscal & Operations Manager, and the Senior Accountant positions. To meet this increase in workload, the Department enlisted the assistance of the Human Resource Division to evaluate the work being performed and recommend the appropriate allocation of an additional full-time employee (FTE) to assist with management of the TOT program including collection, compliance, audits, and outreach training, as well as clearly defining the program and implementing a methodology to allocate the costs of operating the program for full cost recovery. In addition, the Department has established a TOT Focus Group comprised members from the County Executive Office, County Counsel, Auditor-Controller's Office, Community Development Agency, and the Administrative Services Department to identify and address the necessary updates to the County's TOT Ordinance.

The Administrative Services Department's responses to our recommendations identified by our review are included above. We did not audit their responses and, accordingly, we do not express an opinion on them.

We appreciate the courtesy and cooperation of the Department's staff throughout the course of this review.

Respectfully,



Nicole C. Howard, CPA
Assistant Auditor-Controller

cc: Doug Jastrow, Revenue Services Manager
Melissa Spak, Administrative and Fiscal Operations Manager, Administrative Services
Department
Placer County Audit Committee