

AUDIT/FISCAL COMMITTEE



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AUDIT/FISCAL COMMITTEE

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AUDIT/FISCAL COMMITTEE

The Audit/Fiscal Committee reviewed the following County departments:

Assessor
Auditor/Controller-Recorder
Treasurer-Tax Collector

The Audit/Fiscal Committee established subcommittees to review and report on the functions and operations of the above departments. Their findings and recommendations are included in this report.

The committee was responsible for interviewing and selecting an outside audit firm to conduct audits approved by the Grand Jury. Two firms were interviewed, and the firm of Arroyo Associates, Inc. was selected.

The Grand Jury approved an audit, recommended by the Audit/Fiscal Committee, by Arroyo Associates of cash management practices involving centralized cash management, billing, collections, and bad debt policies of County departments. The Executive Summary of the audit and the final audit report are included in the following final reports.

OFFICE OF THE ASSESSOR

BACKGROUND

The County Assessor is responsible for the assessment of all taxable property within the County. The Assessor's responsibilities include discovering and taking inventory of all property within the County, determining a property's eligibility for a full or partial exemption from assessment, determining the proper assessee, determining the location for assessment purposes of the property, and determining the taxable value of the property in accordance with California property tax law. The Assessor also manages and directs property transfers, mapping services pertaining to property, data systems, data entry/clerical support, and audit/appraisals of property within the County.

FINDINGS

Supervisor to staff ratio in the Assessor's office is currently 8.3 persons per supervisor. The national average used by the Federal government through the reinvention of the government process for Federal employees is 15 staff to one supervisor.

The High Desert currently has one Supervising District Appraiser serving Barstow and Needles, one serving Twin Peaks and Big Bear, one for Morongo, and one serving Victorville. At a mid-range salary step of 6, the total salary of the four Supervising District Appraisers, including all County benefits during 2001, is \$250,994.

Auditor/Appraisers I and II in the Assessor's office are currently under a lower grade level than Internal Auditors working for the Auditor/Controller-Recorder. The Internal Auditors are required to have a Bachelor's degree in Accounting, as a minimum, with possession of a CPA at the Auditor II level being desirable. Auditor/Appraisers in the Assessor's Department are required to have a Bachelor's degree with 18 semester units of completed accounting and auditing courses, or be a licensed accountant in the State of California and, within one year, also be certified with a permanent Appraiser's certificate issued by the State Board of Equalization.

The monthly salary levels for the year 2001 are indicated below and includes the 28.25% added County benefit package for professional employees:

Internal Auditors I - Salary Range 50, Step 1 = \$3,896
Auditor/Appraisers I - Salary Range 47, Step 1 = \$3,609
Internal Auditors II - Salary Range 56, Step 1 = \$4,494
Auditor/Appraisers II - Salary Range 54, Step 1 = \$4,284

Because of the disparity between the salary of the Internal Auditors and the Auditor/Appraisers, the Assessor's office is losing trained personnel to both the Auditor/Controller's office and outside business operations that will pay the trained Auditor/Appraisers a higher wage than the current County salary ranges.

RECOMMENDATIONS

- 01-10 BRING THE SUPERVISOR-TO-STAFF RATIO IN THE ASSESSOR'S OFFICE IN LINE, AS CLOSE AS POSSIBLE, WITH THE NATIONAL AVERAGE CURRENTLY USED BY THE FEDERAL GOVERNMENT OF 15 STAFF TO ONE SUPERVISOR.
- 01-11 CONSOLIDATE THE ASSESSOR'S OFFICES IN BARSTOW AND NEEDLES WITH THE VICTORVILLE OFFICE AND CONSOLIDATE THE TWIN PEAKS AND BIG BEAR OFFICES WITH THE MORONGO OFFICE TO ACCOMPLISH A MORE FAVORABLE RATIO OF STAFF TO SUPERVISOR, AND DOWNSIZE TWO OF THE CURRENT HIGH DESERT SUPERVISING DISTRICT APPRAISERS, SAVING THE COUNTY \$125,497 ANNUALLY.
- 01-12 REVIEW THE COUNTY CLASSIFICATION AND SALARY RANGE LISTING TO BRING AUDITOR/APPRAISERS AND INTERNAL AUDITORS UNDER THE SAME SALARY RANGE CLASSIFICATION.

AUDITOR/CONTROLLER-RECORDER-CLERK

BACKGROUND

The Auditor/Controller-Recorder-Clerk department is administered under one County elected official. This report is confined to the Internal Audits and Management Services sections of the Auditor's office.

The Internal Audits Section performs operations and financial audits of departments, offices, agencies and special districts. The Management Services Section provides management advisory services to County departments.

Article V, Section 6 of the San Bernardino County Charter provides in part: *"It shall be the duty of the Auditor to make thorough audits from time to time, and not less than annually of all books, accounts, money and securities of all departments, offices, boards, institutions and special districts under the control of the Board of Supervisors, of the methods of keeping the accounts, and of the existence and effectiveness of internal controls in the transacting of business of such departments, offices, boards, institutions and special districts and with such comments and recommendations as he shall deem proper to promote efficiency and economy ... and to point out particularly any known or apparent misconduct, neglect, or failure in regard to official duty."*

According to County Counsel, the Auditor satisfies the requirements of the County Charter, Article V, Section 6 by the preparation of the "Comprehensive Annual Financial Report" (CAFR) and by its presentation to the Board of Supervisors.

FINDINGS

The 1981 publication of the Federal General Accounting Office (GAO), "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" describes the elements of an audit as follows:

- I. *Financial and Compliance. Determines (a) whether the financial statements of an audit entity present fairly the financial position and results of financial operation in accordance with generally accepted accounting principals and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements.*

- II. *Economy and Efficiency. Determines (a) whether the entity is managing and utilizing its resources economically and efficiently, (b) the causes of inefficiencies or uneconomical practices, and (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.*
- III. *Program Results. Determines (a) whether the desired results or benefits established by the ... authorizing body are being achieved and (b) whether the agency has considered alternatives that might yield desired results at a lower cost."*

The Internal Audits Section maintains and administers the Auditor/Controller Recorder's Fraud, Waste and Abuse hotline. A committee consisting of the Auditor/Controller, Assistant Auditor/Controller, two section personnel and one Sheriff's Lieutenant evaluate calls and memos to the hotline. They refer for appropriate action and follow-up. When appropriate, cases are pursued with in-house resources.

Government Code Section 26883 provides, in part: *"If a report discloses fraud or gross negligence, a copy thereof shall be filed with the district attorney."*

The Auditor/Controller states he does not have the resources to perform in-depth performance audits of all departments, offices and institutions of the County every year. He intends to prioritize and audit high-risk departments more frequently, based on proposed risk analysis.

At the time of this report high-risk departments had not been identified and a schedule for auditing high-risk departments had not been established.

The Auditor/Controller further states the department lacks the budgetary resources to do more in the area of performance audits. The department is substantially challenged to hire and retain qualified accountants and auditors due to cost competition.

Current staff audits, or arranges for audits, of Board-governed special districts. Special districts pay for the cost of audits.

RECOMMENDATIONS

- 01-13 IDENTIFY HIGH RISK DEPARTMENTS AND SCHEDULE AUDITS ACCORDINGLY.

- 01-14 HIRE OUTSIDE CONTRACT AUDITORS TO AUDIT BOARD-GOVERNED SPECIAL DISTRICTS TO FREE UP COUNTY AUDITOR PERSONNEL TO AUDIT COUNTY OFFICES AND INSTITUTIONS.
- 01-15 REQUIRE THAT EVERY DEPARTMENT BE AUDITED NOT LESS THAN ANNUALLY FOR FINANCIAL, POLICY COMPLIANCE, PERFORMANCE AND MANAGEMENT PRACTICES IN COMPLIANCE WITH GENERAL ACCOUNTING OFFICE STANDARDS.
- 01-16 REQUIRE ANY AND ALL DEPARTMENT NON-COMPLIANCE AND/OR MAL-PERFORMANCE BE REPORTED, IN WRITING, TO THE COUNTY ADMINISTRATIVE OFFICER, THE BOARD OF SUPERVISORS AND, WHEN CRIMINAL FRAUD OR MISCONDUCT IS SUSPECTED, TO THE DISTRICT ATTORNEY.
- 01-17 A DEPUTY DISTRICT ATTORNEY BE ASSIGNED TO THE FRAUD, WASTE AND ABUSE HOTLINE EVALUATION TEAM TO EVALUATE AND DETERMINE WHETHER OR NOT CALLS AND MEMOS RECEIVED SUPPORT INQUIRY AND/OR CRIMINAL INVESTIGATION BY THE DISTRICT ATTORNEY'S OFFICE.

TREASURER-TAX COLLECTOR

COLLECTION OF COURT FINES

BACKGROUND

The Central Collections Division of the Treasurer-Tax Collector coordinates County and Court collection functions, not including property taxes and child support, but does no billing.

The Board of Supervisors, on September 21, 1999, ratified Agreement #99-905 between Central Collections and the Courts to collect current court ordered fines and fees. As noted in this Agreement, there is no net cost to the County, but the County could annually realize millions of dollars of additional revenue that it had not been receiving under the private collection.

Per this Agreement, the Central Collections Division of the Treasurer-Tax Collector was contracted to do this collection function beginning January 1, 2000.

On December 31, 1999 the Court terminated its contract with a private collections firm that collected Court-ordered fees and fines.

Per State legislation, any amount of Court collections over and above amounts collected over the base year 1994-1995 is to be split 50-50 between the County and the State.

FINDINGS

The collection of delinquent fees and traffic fines did not begin until March 19, 2001. As of March 2001, only current delinquent cases are being collected. Current delinquent accounts are those accounts that failed to appear or pay during the current month only.

Since no collections were made between January 1, 2000 and March 19, 2001 there is reputed to be a sum in excess of one million dollars still outstanding.

The Treasurer-Tax Collector does not have the total of the dollars involved between January 1, 2000 and March 19, 2001. The Courts have not given this information to the Treasurer-Tax Collector's office or any other County agency. No analysis of aging, based on total receivables and characteristics on these accounts has been made.

The Grand Jury inquired of the Court Executive Office for information on past due court fines and fees and was advised that there are no records of dollar amounts since January 1, 2000.

RECOMMENDATION

01-18 THE COUNTY MAKE EVERY ATTEMPT TO COLLECT THE UNCOLLECTED COURT FINES THAT ACCRUED DURING THE PERIOD FROM JANUARY 1, 2000 UNTIL MARCH OF 2001, WHEN NO COLLECTION EFFORT WAS BEING MADE.

CASH MANAGEMENT

BACKGROUND

The Treasurer-Tax Collector has three divisions:

Tax Collection Division is responsible for collection and accounting of all taxes for taxing entities in the County.

Treasurer Division has responsibility for the cash management of County funds.

Central Collections Division coordinates County and Court collection functions, not including property taxes and child support, but does no billing.

At present, County departments do their own billing, collections, and establish their own bad debt collection policy.

The Central Collections Division has a standardized and integrated billing and collection system ready and operating, but County departments do not use it.

The Treasurer-Tax Collector is set up for a cash management program, which could shorten the cycle of billings, collections and bad debt collection policy.

FINDINGS

At the present time there is no County policy that requires uniformity and centralization of billing, collecting, cash management of current accounts, and bad debt collection.

In most departments, savings realized from operations efficiency and better employee performance do not go back to the departments to reinvest in technology and new systems or for rewarding employees, but go into the General Fund.

Cash management involves a uniform system of policies and procedures that will increase County revenue.

A good cash management system could shorten the cycle of receivable billing, collections and bad debt management, resulting in greater income to the County.

A major benefit of a cash management system could result in higher bond ratings from financial agencies and in higher investment income.

RECOMMENDATIONS

- 01-19 DEVELOP A CASH MANAGEMENT SYSTEM THAT HAS A UNIFORM SYSTEM OF POLICIES AND PROCEDURES.
- 01-20 DEVELOP BENCHMARK STANDARDS, ACCURATE AND RELIABLE REPORTING SYSTEMS, CENTRALIZED CASH MANAGEMENT, AND ABILITY TO MEASURE PERFORMANCE.
- 01-21 USE THE AVAILABLE CENTRAL COLLECTIONS AND CASH MANAGEMENT SYSTEM. THIS WOULD RESULT IN EFFICIENT AND PROFITABLE MONEY MANAGEMENT.

- 01-22 AUTOMATE AND CENTRALIZE CASHIERING, COLLECTIONS, REMITTANCE AND DISBURSEMENT SYSTEMS TO INCREASE REVENUE FOR THE COUNTY.
- 01-23 PROVIDE AN INTEGRATED SYSTEM TO REDUCE COST OF OPERATIONS CONSISTING OF CENTRALIZED: COLLECTIONS, BAD DEBT COLLECTIONS, REMITTANCE PROCESSING SYSTEM, UNIFORM COUNTYWIDE POLICIES FOR ABOVE, AND ELIMINATE OVERLAPPING AND DUPLICATIVE FUNCTIONS
- 01-24 INITIATE IMPROVEMENTS, BENEFITS AND ECONOMIES OF SCALE SO THAT THERE WILL BE CLEARER DEFINED LINES OF RESPONSIBILITY, IMPROVED COMMUNICATION AND DIRECTION, IMPROVED ACCOUNTABILITY, TIMELY AND ACCURATE FINANCIAL DATA, BENEFITS OF DEBT MANAGEMENT, CASH MANAGEMENT EFFICIENCY AND ECONOMIES OF REALLOCATING RESOURCES.
- 01-25 ALLOW DEPARTMENTS TO RETAIN A PORTION OF SAVINGS RESULTING FROM OPERATIONS EFFICIENCY AND BETTER EMPLOYEE PERFORMANCE, TO USE FOR DEBT TECHNOLOGY, SYSTEM IMPROVEMENTS, AND REWARDING EMPLOYEES.

INTRODUCTION TO EXECUTIVE SUMMARY

REVIEW AND ANALYSIS OF CASH MANAGEMENT PROCESSES

As authorized by California Penal Code Section 926, the 2000-2001 San Bernardino County Grand Jury engaged the firm of Arroyo Associates, Inc. to conduct a cash management audit of several County departments. The audit focused on:

1. Centralized cash management
2. Centralized billings
3. Centralized collection
4. Lack of uniform departmental bad debt policies

Based on this audit, an Executive Summary of the findings and recommendations follows. The complete audit report is included in the Grand Jury's Final Report.

Executive Summary

Based on our interviews, on site observations, survey of County departments, and related analyses, it appears that the County may benefit from centralizing the process by which selected types of payments are remitted to County departments. The "centralized remittance processing" system outlined in this report will yield net financial savings to the County, primarily from re-allocation of staff time now devoted to payment processing, i.e. receiving mail, opening envelopes, routing payments, etc. In addition, the County can realize additional earnings from investment of revenue because float time can be reduced by centralizing remittance processes.

Other opportunities for centralizing cash management procedures are more limited. The nature of services provided by individual departments is so diverse, and governed by such disparate regulatory mechanisms, that centralizing invoicing is impractical. However, it is possible and advantageous to standardize policies and procedures with respect to account management, especially with regard to the timely and ongoing reporting of information by departments to the Treasurer. Similarly, gains may be made by standardizing policies and procedures governing how departments handle slow pay and delinquent accounts.

Our findings and recommendations are summarized in the sections that immediately follow. Details on selected departments as well as the financial schedules that form the core of our analyses are then presented in the subsequent Chapters of this report.

Departmental Billings

As a result of our review of the billing procedures for most of the County's departments, we have the following general findings:

1. There is no standardization of billing policies and procedures throughout the County.
2. Each County department generally provides a unique service that requires department employees to have specialized knowledge and training; consequently, billing policies and procedures have been developed by each department to deal with the individual needs of the governmental agencies, clients, customers, patients, etc. receiving services from that department.
3. Policies and procedures range from the use of complex, computerized invoicing to individually-prepared invoices.

01-26 BASED ON THESE FINDINGS, WE HAVE THE FOLLOWING RECOMMENDATIONS:

- A. DUE TO THE UNIQUE NATURE OF THE SERVICES PROVIDED BY EACH DEPARTMENT, WE DO NOT RECOMMEND THAT THE COUNTY IMPLEMENT A CENTRALIZED BILLING SYSTEM. MANY OF THE BILLING PROCEDURES ARE FAR TOO COMPLEX TO INTEGRATE INTO ONE DEPARTMENT AND INTO ONE COMPUTER SYSTEM. WHILE SOME COUNTY DEPARTMENTS ISSUE A SMALL NUMBER OF INVOICES PER MONTH AND HAVE RELATIVELY SIMPLE INVOICES, WE SEE NO PARTICULAR OPERATIONAL OR COST ADVANTAGE TO CENTRALIZING THE BILLING FUNCTION OF THESE SMALLER DEPARTMENTS.

- B. WE DO RECOMMEND THAT THE COUNTY ADOPT A CENTRALIZED REPORTING SYSTEM FOR BILLINGS. WE SUGGEST THAT THIS REPORTING SYSTEM BE ESTABLISHED UNDER THE CONTROL OF THE COUNTY TREASURER'S OFFICE, BECAUSE THE CENTRAL COLLECTIONS FUNCTION IS ALREADY UNDER THE DIRECTION OF THAT OFFICE. THIS SYSTEM SHOULD INCORPORATE THE FOLLOWING ELEMENTS:
 - a. REGULAR AND TIMELY REPORTING OF BILLINGS AND RECEIVABLES TO THE TREASURER

 - b. DEPARTMENT-SPECIFIC INVOICING POLICIES

 - c. USE OF ELECTRONIC FUND TRANSFERS, AS APPROPRIATE

 - d. AGING OF ACCOUNTS TO BE SUBMITTED TO THE TREASURER'S OFFICE

Further information on these recommendations, as well as findings and recommendations for selected departments, are given in Chapter 2 of this report. (See full Audit Report, Section II, Departmental Billings, pages 10-11, for amplification.)

Departmental Collections

As a result of our review, we have the following findings:

1. Most departments open their mail by hand, process and prepare deposits manually. Also, in many departments, photocopies are taken of checks received.
2. Many County departments do not deposit collections on a daily basis.
3. Many departments make use of armored car services to transport cash and checks from the individual department to the bank.
4. The County Treasurer's Office has unused capacity available to accept and process deposits currently being received by each County department. Accordingly, the Treasurer can provide this service with virtually no additional capital investment and a nominal amount of incremental costs.

01-27 IN LIGHT OF THE ABOVE FINDINGS, WE RECOMMEND THE FOLLOWING TO THE GRAND JURY:

WE RECOMMEND THAT THE COUNTY BOARD OF SUPERVISORS ADOPT A POLICY REQUIRING ALL COUNTY DEPARTMENTS TO USE CENTRALIZED REMITTANCE PROCESSING. DEVELOPMENT OF THE SYSTEM FOR CENTRALIZED REMITTANCE PROCESSING SHOULD BE A COORDINATED EFFORT AMONG VARIOUS DEPARTMENTS AND THE COUNTY TREASURER'S OFFICE. THIS WILL HELP ENSURE THAT THE SYSTEM WILL FUNCTION AS INTENDED WHILE REMAINING SENSITIVE TO THE NEEDS OF INDIVIDUAL DEPARTMENTS. UNDER THIS SYSTEM, ANY REMITTANCE FROM AN OUTSIDE ENTITY OR PERSON, WHETHER BY ELECTRONIC FUNDS TRANSFER (EFT) OR CHECK, WOULD BE REQUIRED TO BE REMITTED DIRECTLY TO THE COUNTY TREASURER'S OFFICE. (See full Audit Report, Section III, Centralized Remittance Processing, pages 14-15, for amplification.)

We have estimated that the County can achieve a net annual savings of \$1,470,961 by adopting a centralized remittance processing system, determined as follows:

| | |
|---|--------------------|
| Estimated Increase In Investment Earnings from Centralized Remittance Processing | \$960,233 |
| Estimated Salary and Benefits Cost Savings at the Department Level from Centralized Remittance Processing | 560,000 |
| Estimated Cost Savings from Reduction in Armored Car Services | 35,728 |
| Estimated Cost Increases in County Treasurer's Office from Centralized Remittance Processing | (85,000) |
| TOTAL | \$1,470,961 |

Details on the determination of these savings are provided in Chapter 3, Schedules 1 through 6. The table above does not include one-time costs (for software and forms) necessary to implement a centralized remittance processing system. Those costs would total approximately \$200,000.

In addition to the financial gains from implementing this system, the County should also realize substantially enhanced internal control. By moving remittance processing to the Treasurer's Office, the functions of billing and recordkeeping would be totally separated from most payment processing in all departments.

Collection of Slow Pay and Delinquent Accounts

As part of this engagement, we reviewed the written policies and procedures of the Central Collections Department, as well as the policies and procedures of the various County departments, with respect to overdue accounts. We have the following findings:

1. Individual County Departments:

- a. To our knowledge, the County Board of Supervisors has not adopted any standardized collection policies and procedures that each department is required to follow.
- b. In practice, the individual County departments have a wide range of policies and procedures with respect to the collection of slow pay and delinquent accounts. Many departments have no written collection policies and procedures.

- c. Many County departments have slow pay and delinquent accounts receivable that are not being collected fully or on a timely basis. The total value of accounts written off in 2000, as reported by respondents to our survey, was \$1,292,062.

2. Central Collections:

- a. The County Treasurer's Office has a "Central Collections" function, which has been in operation since 1996. Central Collections has adopted comprehensive written policies and procedures with respect to the collection of slow pay and delinquent accounts
- b. Central Collections uses computer software specifically designed for collection agency applications. In some instances, the software interfaces with databases from the state and other County departments.
- c. Central Collections has developed comprehensive procedures for handling both slow pay and delinquent accounts, with specified periods for issuing collection notices and other communications. Central Collections is equipped to handle accounts that are slow to pay or delinquent, cases where debtors' whereabouts are unknown (through "skiptracing"), and cases requiring legal action, including liens and garnishment of wages.

01-28 AS A RESULT OF OUR REVIEW, WE HAVE THE FOLLOWING RECOMMENDATIONS FOR THE GRAND JURY:

A. WE RECOMMEND THAT THE COUNTY BOARD OF SUPERVISORS ADOPT A POLICY REQUIRING ALL COUNTY DEPARTMENTS TO ADOPT WRITTEN POLICIES AND PROCEDURES WITH REGARD TO SLOW PAY AND DELINQUENT ACCOUNTS. EACH DEPARTMENT WOULD HAVE TWO OPTIONS:

- ADOPT THE ESTABLISHED POLICIES AND PROCEDURES OF CENTRALIZED COLLECTIONS, OR
- PREPARE POLICIES AND PROCEDURES TAILORED TO THE SPECIFIC TYPE OF CLIENT OR CUSTOMER SERVICED BY THAT DEPARTMENT.

B. EACH DEPARTMENT SHOULD BE REQUIRED TO ADOPT A DOLLAR LIMIT AND TIME LIMIT OVER WHICH AN ACCOUNT IS SUBJECT TO COLLECTION. ESTIMATED COLLECTION COSTS

SHOULD NOT EXCEED THE VALUE OF THE OVERDUE ACCOUNT BEING COLLECTED.

C. AT A MINIMUM, EACH DEPARTMENT'S COLLECTION POLICY SHOULD PROVIDE FOR:

- THE MAILING OF A SERIES OF DELINQUENCY NOTICES
- FOLLOW-UP PHONE CALLS
- SKIPTRACING
- ASSESSMENT OF LATE PAYMENT PENALTIES/FEEES
- LEGAL ACTION, WHEN NECESSARY

Details regarding these recommended provisions are given in Chapter 4. (See full Audit Report, Section IV, Delinquent Collections, pages 27-28, for amplification.)

D. IF A DEPARTMENT IS TOO SMALL TO PERFORM ALL OF THESE FUNCTIONS, OR CANNOT PERFORM THESE FUNCTIONS IN A COST EFFECTIVE MANNER, THEN THE DEPARTMENT SHOULD BE REQUIRED TO UTILIZE CENTRAL COLLECTIONS.

E. FOR THOSE COUNTY DEPARTMENTS THAT UTILIZE CENTRAL COLLECTIONS, WE RECOMMEND A "TWO-TIER" COST STRUCTURE FOR COLLECTION FEES THAT ARE CHARGED BACK AGAINST DEPARTMENTAL OPERATIONS, ONE FOR "SLOW PAY" ACCOUNTS, AND ANOTHER FOR ACCOUNTS THAT A DEPARTMENT DECIDES SHOULD BE ASSIGNED FOR COLLECTION. (See full Audit Report, Section IV, Delinquent Collections, pages 27-28, for amplification.)

Adoption of the policy described above should yield financial benefits, in the form of more timely collection of delinquent accounts. It will also yield enhanced internal control, because more information will be gathered on the status of any one account, and that information would be available centrally. If the above policy is adopted by the County Board of Supervisors and if a significant number of County departments begin to utilize Central Collections, this could result in Central Collections adding additional collection agents, and a corresponding reduction in collection costs at the department level. We have not attempted to quantify the dollar magnitude of such changes in operations.

II. DEPARTMENTAL BILLINGS

In this Chapter, we present a summary of findings and recommendations on selected County departments and opportunities for centralized billing.

Current Department Practices

We have observed that each of the various County departments provides a unique service, often to many different types of clients. In addition to the complexity presented by the nature of the services themselves, those services are often governed by varying federal and/or state laws and regulations. The business of each department is therefore typically complex, and not easily standardized. A sample profile of selected departments is given immediately below.

ARROWHEAD REGIONAL MEDICAL CENTER (ARMC)

ARMC bills and collects approximately \$400,000,000 in annual revenues. Invoices must be prepared and transmitted to a wide variety of recipients, including:

- Medicare/Medi-Cal
- Various insurance companies
- Individual patients

Medical billings are highly complex and require a high degree of training and experience. Also, the obtaining of confidential patient information is a critical element in the timely and accurate billing of medical claims. Generally, this information is obtained by hospital personnel in the admitting department, who work closely with the personnel involved in medical billing.

AGRICULTURE

The Department of Agriculture/Weights and Measures is divided into three divisions and an administrative unit. The essential duties of each Division are as follows:

- The Consumer Protection Division inspects weighting and measuring devices used for commercial transactions and enforces regulations dealing with the quality and marketing of produce and eggs.

- The Pest Prevention Division enforces plant quarantine laws, regulated plant nurseries, certifies pest-free status for agricultural commodity shipments, and performs surveys to detect foreign pests.
- The Pesticide Regulatory Division regulates the use of pesticides, performs pest control work for other County Departments and select governmental agencies, and manufactures rodent baits for sale to the public.

Clients include all stores using price scanners, businesses manufacturing or packing commodities for sale, gasoline stations, rock and gravel operations, farmers, pest control businesses, nurseries, other governmental organizations, supermarkets, private citizens, beekeepers, mobile home parks, ranchers and others. Services are provided at the business' or individual's site as well as in each of the Department's seven locations. Payment may be received at any of these locations. Businesses with large transactions or frequent service requests are generally invoiced for the service from the Department's main office in San Bernardino.

CHILD SUPPORT SERVICES

The Department of Child Support Services receives all of its program funds from State and Federal funding. All funds are received electronically. Therefore, there would be no benefit to the County of San Bernardino to change the current procedures for billing and collecting program funds.

BEHAVIORAL HEALTH

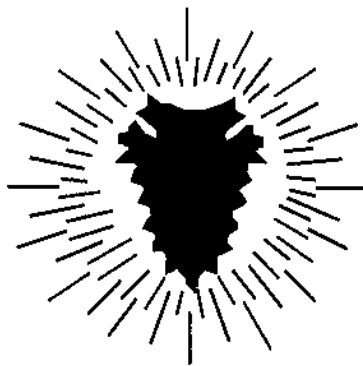
The Department of Behavioral Health provides services to individuals with mental health needs and alcohol or drug addiction. The Department operates or contracts for the provision of 24-hour care, day treatment, outpatient services, case management and crisis and referral services to maintain continuous care. Funds are received from State and Federal agencies, from insurance companies, and from individuals. The Department does some billings electronically depending on the funding agencies requirements and the Department receives electronic deposits from the State of California. The Department does not accept credit cards.

Due to these factors, department services will be substantially more effective if employees possess the requisite, specialized knowledge and training. In turn, billing policies and procedures have been developed by each department to address the particular needs of the department and other agencies. Policies and procedures range from the use of complex, computerized invoicing to individually prepared invoices. Currently, only one County department utilizes centralized billing. The Public Defender's Office uses the County Treasurer's Office to process and mail billings.

**Review and Analysis of
Cash Management Processes for**

**SAN BERNARDINO COUNTY
2000-2001 GRAND JURY**

FINAL REPORT



May 31, 2001



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This chapter of our report discusses our understanding of this project's background, scope, and objectives.

Background

San Bernardino County is a large and complex organization, with more than 30 separate departments that provide a wide variety of services. The costs of providing many of these services are supported by monies provided from Federal and State government, a third party agency or the taxpayer. A key to the County's success in managing the financial resources required to provide these services is the timely processing and payment for services rendered.

The responsibilities for billing and collection are currently decentralized throughout the County government. A preliminary survey conducted by the Grand Jury noted 24 departments are currently involved in billing and collection functions. Moreover, it appears that the policies and procedures governing billing and collection are not consistent across departments.

Based on this preliminary assessment, there appears to be significant opportunities for the County to enhance its financial performance through more efficient and effective billing and collection processes and procedures. The goal should be to move revenue into the County Treasury as quickly as possible. This may be accomplished by centralization of duties and responsibilities, improved technology, enhanced productivity of existing staff, and revised policies. Potential benefits of centralization include costs savings, more efficient and effective customer service, and improved ability to measure departmental performance.

Scope and Objectives

The scope of this study is limited to reviewing current practices and procedures with respect to cash management at the departmental level in the County of San Bernardino. Specific objectives are as follows:

- Inventory current cash management operations, including invoicing, collections and handling of slow pay and delinquent accounts.
- Evaluate effectiveness of cash management operations with respect to issues that may include time cycle, responsibility and accountability, overlapping and duplicate functions, internal communication and cooperation, overall cost-effectiveness, and security.

- Identify options for centralizing of cash management processes.
- Provide a cost/benefit analysis of options for centralization.

Methodologies

We have utilized a variety of methodologies to generate data and analyses reported herein. Below is a brief overview of each method and specifics of our work using that method.

| | |
|---------------------------------|--|
| Interviews | A total of 25 one-on-one or small-group interviews were conducted with representatives from County departments, including the Treasurer/Tax Collector and his staff and the Auditor-Controller and his staff. A listing of these individuals is provided in Appendix A. |
| Department Surveys | As a means of documenting current cash management processes and procedures, we designed, fielded and tabulated results of a written survey of those County departments that invoice and collect for services. A total of nineteen departments and two special districts responded in total or in part to our survey. Individual responses were also received from a total of 11 divisions within the Fire Department and Public Works Department. Appendix B provides the survey instrument. |
| Document Review/Analysis | We gathered documents, data and other information from selected departments to develop a detailed profile of each department's cash management practices and procedures. Documents were obtained through the survey, interviews, and by fax. A spreadsheet presenting the fully tabulated profiles of each department is provided in Appendix C. |
| Cost-Benefit Analysis | Based on data gathered in our interviews, from the surveys and other documents, we prepared detailed schedules showing financial costs and benefits associated with specific recommendations for centralizing or otherwise modifying current cash management practices and procedures. These schedules are presented in the body of this report. |

Executive Summary

Based on our interviews, on site observations, survey of County departments, and related analyses, it appears that the County may benefit from centralizing the process by which selected types of payments are remitted to County departments. The "centralized remittance processing" system outlined in this report will yield net financial savings to the County, primarily from re-allocation of staff time now devoted to payment processing, i.e. receiving mail, opening envelopes, routing payments, etc. In addition, the County can realize additional earnings from investment of revenue because float time can be reduced by centralizing remittance processes.

Other opportunities for centralizing cash management procedures are more limited. The nature of services provided by individual departments is so diverse, and governed by such disparate regulatory mechanisms, that centralizing invoicing is impractical. However, it is possible and advantageous to standardize policies and procedures with respect to account management, especially with regard to the timely and ongoing reporting of information by departments to the Treasurer. Similarly, gains may be made by standardizing policies and procedures governing how departments handle slow pay and delinquent accounts.

Our findings and recommendations are summarized in the sections that immediately follow. Details on selected departments as well as the financial schedules that form the core of our analyses are then presented in the subsequent Chapters of this report.

Departmental Billings

As a result of our review of the billing procedures for most of the County's departments, we have the following general findings:

1. There is no standardization of billing policies and procedures throughout the County.
2. Each County department generally provides a unique service that requires department employees to have specialized knowledge and training; consequently, billing policies and procedures have been developed by each department to deal with the individual needs of the governmental agencies, clients, customers, patients, etc. receiving services from that department.
3. Policies and procedures range from the use of complex, computerized invoicing to individually-prepared invoices.

Based on these findings, we have the following recommendations:

1. Due to the unique nature of the services provided by each department, we do not recommend that the County implement a centralized billing system. Many of the billing procedures are far too complex to integrate into one department and into one computer system. While some County departments issue a small number of invoices per month and have relatively simple invoices, we see no particular operational or cost advantage to centralizing the billing function of these smaller departments.
2. We do recommend that the County adopt a centralized reporting system for billings. We suggest that this reporting system be established under the control of the County Treasurer's Office, because the Central Collections function is already under the direction of that Office. This system should incorporate the following elements:
 - a. Regular and timely reporting of billings and receivables to the Treasurer
 - b. Department-specific invoicing policies
 - c. Use of Electronic Fund Transfers, as appropriate
 - d. Aging of accounts to be submitted to the Treasurer's Office

Further information on these recommendations, as well as findings and recommendations for selected departments, are given in Chapter 2 of this report.

Departmental Collections

As a result of our review, we have the following findings:

1. Most departments open their mail by hand, process and prepare deposits manually. Also, in many departments, photocopies are taken of checks received.
2. Many County departments do not deposit collections on a daily basis.
3. Many departments make use of armored car services to transport cash and checks from the individual department to the bank.

4. The County Treasurer's Office has unused capacity available to accept and process deposits currently being received by each County department. Accordingly, the Treasurer can provide this service with virtually no additional capital investment and a nominal amount of incremental costs.

In light of the above findings, we recommend the following to the Grand Jury:

We recommend that the County Board of Supervisors adopt a policy requiring all County departments to use centralized remittance processing. Development of the system for centralized remittance processing should be a coordinated effort among various departments and the County Treasurer's Office. This will help ensure that the system will function as intended while remaining sensitive to the needs of individual departments. Under this system, any remittance from an outside entity or person, whether by Electronic Funds Transfer (EFT) or check, would be required to be remitted directly to the County Treasurer's Office.

We have estimated that the County can achieve a net annual savings of \$1,470,961 by adopting a centralized remittance processing system, determined as follows:

| | |
|---|-----------------|
| Estimated Increase In Investment Earnings from Centralized Remittance Processing | \$960,233 |
| <hr/> | |
| Estimated Salary and Benefits Cost Savings at the Department Level from Centralized Remittance Processing | 560,000 |
| <hr/> | |
| Estimated Cost Savings from Reduction in Armored Car Services | 35,728 |
| <hr/> | |
| Estimated Cost Increases in County Treasurer's Office from Centralized Remittance Processing | <u>(85,000)</u> |
| <hr/> | |
| TOTAL | \$1,470,961 |

Details on the determination of these savings are provided in Chapter 3, Schedules 1 through 6. The table above does not include one-time costs (for software and forms) necessary to implement a centralized remittance processing system. Those costs would total approximately \$200,000.

In addition to the financial gains from implementing this system, the County should also realize substantially enhanced internal control. By moving remittance processing to the Treasurer's Office, the functions of billing and record keeping would be totally separated from most payment processing in all departments.

Collection of Slow Pay and Delinquent Accounts

As part of this engagement, we reviewed the written policies and procedures of the Central Collections Department, as well as the policies and procedures of the various County departments, with respect to overdue accounts. We have the following findings:

1. Individual County Departments:

- a. To our knowledge, the County Board of Supervisors has not adopted any standardized collection policies and procedures that each department is required to follow.
- b. In practice, the individual County departments have a wide range of policies and procedures with respect to the collection of slow pay and delinquent accounts. Many departments have no written collection policies and procedures.
- c. Many County departments have slow pay and delinquent accounts receivable that are not being collected fully or on a timely basis. The total value of accounts written off in 2000, as reported by respondents to our survey, was \$1,292,062.

2. Central Collections:

- a. The County Treasurer's Office has a "Central Collections" function, which has been in operation since 1996. Central Collections has adopted comprehensive written policies and procedures with respect to the collection of slow pay and delinquent accounts
- b. Central Collections uses computer software specifically designed for collection agency applications. In some instances, the software interfaces with databases from the state and other County departments.
- c. Central Collections has developed comprehensive procedures for handling both slow pay and delinquent accounts, with specified periods for issuing collection notices and other communications. Central Collections is equipped to handle accounts that are slow to pay or delinquent, cases where debtors' whereabouts are unknown (through "skiptracing"), and cases requiring legal action, including liens and garnishment of wages.

As a result of our review, we have the following recommendations for the Grand Jury:

1. We recommend that the County Board of Supervisors adopt a policy requiring all County departments to adopt written policies and procedures with regard to slow pay and delinquent accounts. Each department would have two options:
 - Adopt the established policies and procedures of Centralized Collections, or
 - Prepare policies and procedures tailored to the specific type of client or customer serviced by that department.
2. Each department should be required to adopt a dollar limit and time limit over which an account is subject to collection. Estimated collection costs should not exceed the value of the overdue account being collected.
3. At a minimum, each department's collection policy should provide for:
 - The mailing of a series of delinquency notices
 - Follow-up phone calls
 - Skiptracing
 - Assessment of late payment penalties/fees
 - Legal action, when necessary

Details regarding these recommended provisions are given in Chapter 4.

4. If a department is too small to perform all of these functions, or cannot perform these functions in a cost effective manner, then the department should be required to utilize Central Collections.
5. For those County departments that utilize Central Collections, we recommend a "two-tier" cost structure for collection fees that are charged back against departmental operations, one for "slow pay" accounts, and another for accounts that a department decides should be assigned for collection. Details are provided in Chapter 4.

Adoption of the policy described above should yield financial benefits, in the form of more timely collection of delinquent accounts. It will also yield enhanced internal control, because more information will be gathered on the status of any one account, and that information would be available centrally. If the above policy is adopted by the County Board of Supervisors and if a significant number of County departments begin to utilize Central Collections, this could result in Central Collections adding additional collection agents, and a corresponding reduction in collection costs at the department level. We have not attempted to quantify the dollar magnitude of such changes in operations.

II. DEPARTMENTAL BILLINGS

In this Chapter, we present a summary of findings and recommendations on selected County departments and opportunities for centralized billing.

Current Department Practices

We have observed that each of the various County departments provides a unique service, often to many different types of clients. In addition to the complexity presented by the nature of the services themselves, those services are often governed by varying federal and/or state laws and regulations. The business of each department is therefore typically complex, and not easily standardized. A sample profile of selected departments is given immediately below.

ARROWHEAD REGIONAL MEDICAL CENTER (ARMC)

ARMC bills and collects approximately \$400,000,000 in annual revenues. Invoices must be prepared and transmitted to a wide variety of recipients, including:

- Medicare/Medi-Cal
- Various insurance companies
- Individual patients

Medical billings are highly complex and require a high degree of training and experience. Also, the obtaining of confidential patient information is a critical element in the timely and accurate billing of medical claims. Generally, this information is obtained by hospital personnel in the admitting department, who work closely with the personnel involved in medical billing.

AGRICULTURE

The Department of Agriculture/Weights and Measures is divided into three divisions and an administrative unit. The essential duties of each Division are as follows:

- The Consumer Protection Division inspects weighting and measuring devices used for commercial transactions and enforces regulations dealing with the quality and marketing of produce and eggs.

- The Pest Prevention Division enforces plant quarantine laws, regulated plant nurseries, certifies pest-free status for agricultural commodity shipments, and performs surveys to detect foreign pests.
- The Pesticide Regulatory Division regulates the use of pesticides, performs pest control work for other County Departments and select governmental agencies, and manufactures rodent baits for sale to the public.

Clients include all stores using price scanners, businesses manufacturing or packing commodities for sale, gasoline stations, rock and gravel operations, farmers, pest control businesses, nurseries, other governmental organizations, supermarkets, private citizens, beekeepers, mobile home parks, ranchers and others. Services are provided at the business' or individual's site as well as in each of the Department's seven locations. Payment may be received at any of these locations. Businesses with large transactions or frequent service requests are generally invoiced for the service from the Department's main office in San Bernardino.

CHILD SUPPORT SERVICES

The Department of Child Support Services receives all of its program funds from State and Federal funding. All funds are received electronically. Therefore, there would be no benefit to the County of San Bernardino to change the current procedures for billing and collecting program funds.

BEHAVIORAL HEALTH

The Department of Behavioral Health provides services to individuals with mental health needs and alcohol or drug addiction. The Department operates or contracts for the provision of 24-hour care, day treatment, outpatient services, case management and crisis and referral services to maintain continuous care. Funds are received from State and Federal agencies, from insurance companies, and from individuals. The Department does some billings electronically depending on the funding agencies requirements and the Department receives electronic deposits from the State of California. The Department does not accept credit cards.

Due to these factors, department services will be substantially more effective if employees possess the requisite, specialized knowledge and training. In turn, billing policies and procedures have been developed by each department to address the particular needs of the department and other agencies. Policies and procedures range from the use of complex, computerized invoicing to individually prepared invoices. Currently, only one County department utilizes centralized billing. The Public Defender's Office uses the County Treasurer's Office to process and mail billings.

Recommendations Regarding Centralized Billing

Due to the unique nature of the services provided by each department, we do not recommend that the County implement a centralized billing system. Many of the billing procedures are far too complex to integrate into one department and into one computer system. For example, a centralized computer billing system would need to be programmed to handle the individual and unique features of all County departments. The employees of a centralized billing department would need to be trained regarding the services and unique problems of every department. In our view, such a system would be impractical, burdensome and would most likely result in a reduced service level to County clients and customers.

Notwithstanding the above comments, we recommend that the County adopt a centralized reporting system for billings. We further recommend that this system be established within the County Treasurer's Office, due to the fact that the Central Collections function is already under the Treasurer's Office direction. Locating both functions in the same office will facilitate sharing of information and help ensure more efficient and effective collections processes. It will also be to the County's advantage with respect to investment to centralize billings reporting in this way. The Treasurer's Office will have ready access to the most current information on various measures that indicate the status of the County's cash management processes. This information will enhance that office's ability to best manage County investments.

To establish a centralized reporting system for billings, we recommend that the County do the following:

- a. Adopt a policy that all County departments must report billing and receivable data to the County Treasurer's Office on a monthly basis.
- b. Establish a separate policy for each department, requiring that invoices be issued within a specified period of days after the County service is rendered. (The number of days in each department will depend on the nature of the service and established billing practices.)
- c. Establish a policy requiring that billings be submitted to governmental agencies, clients, customers, patients, etc. by electronic transmission, if this type of billing is allowable by the billing recipient.
- d. Require each department to produce a monthly accounts receivable aging, reporting receivables by the following due date categories: current, 30 days, 60 days, 90 days, 120 days, over 120 days. Also, require each department to submit its account receivable aging to the County Treasurer within 10 days after month end.

- e. Assign an employee in Central Collections the responsibility to monitor billing and receivable data on a monthly basis to assure compliance with these new policies.

Department-Specific Recommendations

Based on information gathered from specific departments, we are providing the following recommendations for modifying billing procedures in selected departments.

1. The Vehicle Services Department could benefit from working with the Information Services Department (ISD) to make the data generated by ISD more usable for billing purposes, especially with regard to interfund transfers.
2. The Land Use Services Department should develop written policies and procedures for billing and collection processes. Conversion to the computer program, Permits Plus, should be completed immediately. A cash register which links to the computer program and can take credit cards should be used at the front counter in place of cash boxes. Duties for each of the processes should be clearly defined and segregated among the employees.

III. CENTRALIZED REMITTANCE PROCESSING

This Chapter provides detailed information on the recommendation to institute a centralized remittance processing system.

Current Department Payment Processing

While the unique nature of department services makes centralized billing impractical and unproductive, the nature of payment processing is more readily standardized and centralized. The functions now completed at the department level with regard to payment processing are very similar across departments. Moreover, the processing of payments is now largely a manual effort: envelopes are received by mail, opened by hand, checks are withdrawn and routed, photocopies may be made, and deposits are made at various times, from daily to weekly.

This process is straightforward, yet also relatively labor-intensive and time-consuming. A total of 88 positions in 19 departments are currently involved in remittance processing. Based on department reports of hours devoted to remittance processing, the full-time equivalent of 20 positions is currently required just to process payments. Based on FY 2000 data, a total of approximately 36,195 remittances are processed monthly.

In addition to diverting staff time from potentially more productive efforts, the current system carries an unnecessarily high level of risk for processing error. With so many hands involved in processing a relatively large number of transactions, there is the potential for lost or mis-processed payments.

In addition to the costs for personnel, the County also provides armored car services for transporting deposits from individual departments to the Bank of America. The Arrowhead Regional Medical Center makes daily use of these services. Arrowhead alone represents nearly half of the monthly remittance transactions reported by departments in our survey. From April 2000 through March 2001, the costs for armored car services to the County totaled \$119,095, an average of \$9,925 per month.

The costs associated with the current system are also manifested in lost earnings. Our survey results indicate that relatively few departments make deposits on a daily basis. Therefore, the "float" (the time that elapses between when a payment is received and when it is deposited) can be up to 5 days, resulting in lost investment earnings, which could be re-captured if payments could be processed more promptly.

Capacity and Technology in County Treasurer's Office

Based on our site visits and interviews with personnel in the County Treasurer's Office, it is our observation that the Treasurer's Office has unused capacity available to accept and process non-cash deposits currently being received by each County department. Our analysis, based on information provided by the Treasurer's staff, specifications of technology now being utilized by that office, and transactions-related data provided by individual departments, indicates that the Treasurer's Office can provide this service with virtually no additional capital investment and a nominal amount of incremental costs. Specifics regarding the unused capacity are as follows:

- The Treasurer's Office currently has in place two NCR high-speed check processing machines. The machines were acquired primarily to process large volumes of property tax payments in April and December of each year. One machine is idle much of the year, and could be used for processing checks received by County departments. The check processing machines have the capacity to:
 - Process checks automatically and store images of the front of the check. The front of the check can be pulled up online and reviewed by any department personnel.
 - Automatically record the check into the County's accounting system based on the department of origin.
- With respect to capacity, each check processing machine can process approximately 24,000 checks per day. During the County's peak property tax season (twice a year), approximately 25,000 checks per day are processed. During non-peak times, the volume is much less - roughly 5,000 checks per day.
- The Treasurer's Office also has four (4) recently acquired envelope opening machines. The machines open the envelope and extract the contents. Each machine has a maximum rated processing capacity of 4,500 envelopes per hour. (The actual speed of the machine depends on the type of mail and the skill of the operator. Currently, the Treasurer's Office can process between 1,500 and 2,000 envelopes per hour on one machine.)
- We have estimated the total additional remittances from all County departments would be approximately 36,000 per month, or 1,800 per day (assuming 20 work days per month). Accordingly, the Treasurer's Office check processing and envelope opening machines could easily absorb this additional volume.

The Treasurer's informational website (www.mytaxcollector.com) currently has a system in place to accept credit and debit card payments over the web or by telephone. With certain programming changes, the customers of each County department could utilize these systems for payment. This would expand the payment options available to all departmental customers.

Recommendation for Centralized Remittance Processing

Based on the findings discussed above, it is recommended that the County Board of Supervisors adopt a policy requiring all County departments to use centralized remittance processing. Under this system, any remittance from an outside entity or person, whether by Electronic Funds Transfer (EFT) or check, would be required to be remitted directly to the County Treasurer's Office. Many of the departments would continue to receive some collections at the local level. However, any collection to be received by EFT or through the mail should go directly to the County Treasurer's Office. Notices to customers should indicate that questions about their invoices should be directed to the relevant department and that the Treasurer's Office should be contacted only to make payment.

Information on payments, including an electronic image of the check(s) and stub(s) for each transaction, would be transmitted to individual departments promptly--normally the same day that payment is received, or at the latest 1-2 business days after posting--via file transfer protocol or electronic mail. For any department payment, a file is created that includes at a minimum the following fields: account number, date, payment amount and image file names. This file can be transmitted via file transfer protocol or electronic mail to the participating agency so that it can be uploaded to their automated system. An electronic image of the check(s) and stub(s) for each transaction would be created in a standard TIF format. The images would be identified using a combination of date and transaction number for each payment. Once these images are stored in a directory on a computer, they can be accessed for viewing without any special software. Alternatively, the department could choose to modify their accounts receivable system so that these images could be linked to each specific account (as the Treasurer's Office has done for property tax payments).

We further recommend that the system for centralizing of remittance processing be developed as a joint effort, with participation by a representative set of County departments and the Treasurer's Office. This coordinated effort will help ensure that the system as designed will be both efficient and responsive to the needs of individual departments. We also recommend that the remittance processing system be implemented first on a trial basis with selected departments. Once any necessary modifications have been made, the system can be implemented County-wide.

We are not making any recommendations regarding centralized remittance processing for agency funds because further investigation would be necessary to determine if utilizing centralized collections and remittance would be allowed under State and Federal law. For example, the Department of Child Support Services administers an agency fund containing the support received from the responsible party and distributes funds to the court ordered recipient. The department may benefit from the use of Central Remittance Processing and Central Collections; however, there would be no increase in cash flow or direct benefit to the County due to cost savings, because all costs are reimbursed by State and Federal funds.

Cost-Benefit Analysis

From an internal control standpoint, moving non-cash collections to the Treasurer's Office would be very favorable. The functions of billing and record keeping at the Departmental level would be totally separated from the collection function, for most transactions.

The recommended system also promises significant financial benefits, both from ongoing cost savings and increased earnings. The financial costs and benefits, described immediately below, are summarized in Schedule 1 with additional details provided in Schedules 2 through 6.

- a. Interest earnings could be increased by eliminating the "float" existing in each County department. If entities or individuals electronically transmit or mail payments directly to the Treasurer's Office, this will eliminate the time necessary to receive and remit the payments from each Department to the Treasurer's Office. If this procedure is in place for all County departments, it could increase the County's investment yield. See Schedule 3 for details.
- b. Armored car services are used by some departments to transport cash and checks to the Treasurer's Office and/or banks. Because some cash and checks would still be received at various geographic locations, the use of armored cars would not be eliminated. But the frequency and volume of use could most likely be reduced, resulting in a net cost savings. See Schedule 5 for details.
- c. The customer of each County department could utilize systems now in place at the Treasurer's website to make payments by credit or debit card, or by telephone. This not only expands the payment options available to all Departmental customers, but also relieves each Department of the costs associated with acquiring credit card-related hardware and software.
- d. The County should, by the re-allocation of some cash collection personnel at the department level, achieve a net reduction in the costs of cash management

County-wide. See Schedule 4 for details. Note that these are projected savings in costs of cash management, not net financial savings to the County. At the department level, very few positions are dedicated solely to processing of payments. Therefore, implementation of a centralized remittance processing system is unlikely to result in elimination of any positions. However, implementation of such a system could offset hiring of additional personnel, as time now devoted to remittance processing will be available to complete tasks for which additional part-time or full-time personnel might otherwise be required.

- e. The one-time costs associated with implementing a centralized remittance processing system for software, paper and forms, would total approximately \$200,000, as specified in Schedule 2. Additional annual costs, for personnel in the Treasurer's Office, are estimated to total approximately \$85,000, as specified in Schedule 6.

Schedule 1. Estimated Net Annual Savings To County From Centralization Of Remittance Processing

| | <u>Schedule</u> | |
|---|------------------|--------------------|
| | <u>Reference</u> | <u>Amount</u> |
| Estimated Increase In Investment Earnings from Centralized Remittance Processing | 3 | \$960,233 |
| Estimated Salary and Benefits Cost Savings at the Department Level from Centralized Remittance Processing | 4 | 560,000 |
| Estimated Cost Savings from Reduction In Armored Car Services | 5 | 35,728 |
| Estimated Cost Increases In County Treasurer's Office from Centralize Remittance Processing | 6 | <u>(85,000)</u> |
| | | <u>\$1,470,961</u> |

Schedule 2. Estimated One-Time Costs To Implement Centralized Remittance Processing System

| | |
|---|------------------|
| Additional Software Costs (Note A) | \$100,000 |
| Additional Forms and Paper Costs (Note B) | <u>100,000</u> |
| | <u>\$200,000</u> |

Note A: The IS Manager of the County Treasurer's Office estimates additional software costs of up to \$5,000 per department will be required to reprogram the check processing machine to handle items for each department. Assuming remittance processes are centralized for twenty departments, we have estimated \$100,000 for such additional programming costs.

Note B: New forms and envelopes will need to be printed for each department. We have estimated this cost at \$100,000.

Schedule 3. Estimated Increase In Investment Earning From Centralized Remittance Processing System
(page 1 of 2)

| Department | Est Annual Gross Rev ^F | Estimated pymts rec'd by EFT | Estimated Bad Debts | Est Cash Receipts Received by Dept | Frequency of Deposits |
|---------------------------------|-----------------------------------|------------------------------|------------------------------|------------------------------------|-----------------------|
| Agriculture, Weights & Measures | \$2,915,830.00 | \$1,696,493.00 | - | \$1,219,337.00 | once a week |
| Airports | \$2,729,186.00 | - | \$8,253.37 ^B | \$2,720,932.63 | once a week |
| Arrowhead Regional Med Ctr | \$426,212,198.00 | \$75,315,542.00 | \$40,299,624.96 ^A | \$310,597,031.04 | daily |
| Assessor | \$81,473.26 | - | - | \$81,473.26 | once a week |
| Auditor | \$18,008,160.00 | \$1,800,816.00 ^C | - | \$16,207,344.00 | daily |
| Behavioral Health | \$29,082,159.00 | - | \$56,390.00 ^B | \$29,025,769.00 | daily |
| Department of Child Support | \$20,000,000.00 | \$20,000,000.00 ^D | - | - | EFT |
| District Attorney's Office | \$22,000,000.00 | - | - | \$22,000,000.00 | daily |
| County Fire | | | | | |
| Ambulance billing | \$3,341,256.00 | - | \$950,901.00 ^B | \$2,390,355.00 | daily |
| Auto parts/ repairs | \$57,249.00 | - | -- | \$57,249.00 | daily |
| Cost Recovery | \$683,389.00 | - | \$6,092.71 ^B | \$677,296.29 | daily |
| Hazmat Permit Billing | \$1,951,192.00 | - | 15,605.98 ^B | \$1,935,586.02 | daily |
| Human Resources/ Risk Mgmt | \$487,017.00 | - | - | \$487,017.00 | |
| Information Services | \$1,763,374.00 | - | - | \$1,763,374.00 | when total >\$500 |
| Land Use Services | \$4,325,931.98 | - | - | \$4,325,931.98 | daily |
| Library | \$574,982.00 | - | - | \$574,982.00 | various |
| Public Works | | | | | |
| Transport-Permits | \$329,404.00 | - | - | \$329,404.00 | 2-3 times a week |
| Transport-Miscellaneous | \$5,124,775.00 | - | \$3,100.00 ^B | \$5,121,675.00 | 2-3 times a week |
| Flood Control | \$677,209.00 | - | - | \$677,209.00 | 2-3 times a week |
| GIMS | \$44,650.00 | - | - | \$44,650.00 | once a week |
| Regional Parks | \$818,382.00 | - | - | \$818,382.00 | once a week |
| Surveyor | \$71,205.00 | - | - | \$71,205.00 | n/ a |
| Solid Waste | \$26,520,670.00 | - | - | \$26,520,670.00 | daily |
| Real Estate Services | \$159,132.00 | - | - | \$159,132.00 | once a week |
| Registrar of Voters | \$3,579,754.00 | - | - | \$3,579,754.00 | once a week |
| Sheriff | \$56,507,800.00 ^E | \$5,650,780.00 ^C | - | \$50,857,020.00 | twice a week |
| Treasurer/ Tax Collector | \$1,060,283,006.21 | \$1,060,283,006.21 | - | - | n/ a |
| Central Collections | \$5,429,514.00 | \$5,429,514.00 | - | - | n/ a |
| Vehicle Services | \$1,178,242.00 | - | - | \$1,178,242.00 | once a week |
| Special Districts | | | | | |
| Water and Sanitation | \$9,486,620.00 | - | 66,813.00 ^B | \$9,419,807.00 | daily |
| Crestline Sanitation | \$2,015,980.00 | - | 3,880.32 ^B | \$2,012,099.68 | daily |

EXPLANATORY NOTES AND ASSUMPTIONS

- A Assumes 48% of overdue accounts are uncollectible
- B Based on Accounts written off in Fiscal Year 2000
- C Assumes 10% of payments received are Electronic Fund Transfers.
- D Revenue represents amount received from the State to fund the program. The department also collects child support payments. Because these payments would not change the annual yield, they are not included in these calculations.
- E Does not include revenue from State and Federal Grants
- F The estimated annual income was determined by the six month total provided by the departmental surveys multiplied by two.
- G The estimated % received at the department was determined by the Cash and Carry % provided by the departmental survey.

**Schedule 3. Estimated Increase In Investment Earning From Centralized
Remittance Processing System**
(page 2 of 2)

| Department | Additional days of Int per week | Est % Rec'd at Dept Level ^G | Est % Rec'd by Cnty Treas | Est Annual Yield | Est Annual Yield | Net Annual Increase in Earnings |
|---------------------------------|------------------------------------|---|------------------------------|---------------------|---------------------|------------------------------------|
| Agriculture, Weights & Measures | 2.5 | 25% | 75% | 6% | \$54,870.17 | \$19,543 |
| Airports | 2.5 | 5% | 95% | 6% | \$155,093.16 | \$55,239 |
| Arrowhead Regional Med Ctr | 1.0 | 15% | 85% | 6% | \$15,840,448.58 | \$43,398 |
| Assessor | 2.5 | 20% | 80% | 6% | \$3,910.72 | \$1,393 |
| Auditor | 1.0 | 5% | 95% | 6% | \$923,818.61 | \$2,531 |
| Behavioral Health | 1.0 | 5% | 95% | 6% | \$1,654,468.83 | \$4,533 |
| Department of Child Support | 0.0 | 0% | 100% | 6% | - | \$0 |
| District Attorney's Office | 1.0 | 0% | 100% | 6% | \$1,320,000.00 | \$3,616 |
| County Fire | | | | | | |
| Ambulance billing | 1.0 | 0% | 100% | 6% | \$143,421.30 | \$393 |
| Auto parts/ repairs | 1.0 | 0% | 100% | 6% | \$3,434.94 | \$9 |
| Cost Recovery | 1.0 | 0% | 100% | 6% | \$40,637.78 | \$111 |
| Hazmat Permit Billing | 1.0 | 0% | 100% | 6% | \$116,135.16 | \$318 |
| Human Resources/ Risk Mgmt | | | | | | |
| Information Services | 1.5 | 0% | 100% | 6% | \$105,802.44 | \$22,610 |
| Land Use Services | 1.0 | 80% | 20% | 6% | \$51,911.18 | \$142 |
| Library | 2.0 | 20% | 80% | 6% | \$27,599.14 | \$7,864 |
| Public Works | | | | | | |
| Transport-Permits | 1.5 | 54% | 46% | 6% | \$9,091.55 | \$1,943 |
| Transport-Miscellaneous | 1.5 | 54% | 46% | 6% | \$141,358.23 | \$30,208 |
| Flood Control | 1.5 | 54% | 46% | 6% | \$18,690.97 | \$3,994 |
| GIMS | 2.5 | 50% | 50% | 6% | \$1,339.50 | \$477 |
| Regional Parks | 2.5 | 50% | 50% | 6% | \$24,551.46 | \$8,744 |
| Surveyor | 1.0 | n/ a | n/ a | 6% | - | \$0 |
| Solid Waste | 1.0 | 50% | 50% | 6% | \$795,620.10 | \$2,180 |
| Real Estate Services | 2.5 | 0% | 100% | 6% | \$9,547.92 | \$3,401 |
| Registrar of Voters | 2.5 | 10% | 90% | 6% | \$193,306.72 | \$68,849 |
| Sheriff | 1.5 | 0% | 100% | 6% | \$3,051,421.20 | \$652,085 |
| Treasurer/ Tax Collector | 0.0 | 0% | 100% | 6% | - | \$0 |
| Central Collections | 0.0 | 0% | 100% | 6% | - | \$0 |
| Vehicle Services | 2.5 | 0% | 100% | 6% | \$70,694.52 | \$25,179 |
| Special Districts | | | | | | |
| Water and Sanitation | 1.0 | 22% | 100% | 6% | \$440,846.97 | \$1,208 |
| Crestline Sanitation | 1.0 | 20% | 100% | 6% | \$96,580.78 | \$265 |

Total Estimated Net Annual Increase in Yield \$960,233

**Schedule 4. Estimated Salary and Benefit Cost Savings At The Department Level
From Centralized Remittance Processing**

| <u>Department</u> | <u>Approximate Full-Time-Equivalent (FTE) Departmental Personnel Involved in Remittance and Collection Processing</u> | <u>Average Remittance Transactions Per Month</u> |
|--------------------|---|--|
| Arrowhead Regional | 3.75 | 18,132 |
| Behavioral Health | 2.00 | 115 |
| District Attorney | 2.00 | 45 |
| Fire Department | 5.00 | 2,000 |
| Sheriff | 1.70 | 60 |
| Special Districts | 1.28 | 12,779 |
| Other Departments | <u>4.27</u> | <u>3,064</u> |
| Total | <u>20.00</u> | <u>36,195</u> |

Average Payroll Costs per FTE
(Salary and Benefits) **\$28,000**

Estimated Cost Savings at the
Department Level from
Centralized Remittance
Processing (20 x \$28,000) **\$560,000**

Schedule 5. Estimated Cost Savings From Reduction In Armored Car Services

| | |
|--|------------------|
| Approximate Armored Car Charges to the County for the Period April, 2000 through March, 2001 | <u>\$119,095</u> |
| Average Charge Per Month | <u>\$ 9,925</u> |
| Estimated Reduction In Use of Armored Car Service By County Departments (Note A) | <u>\$ 35,728</u> |

Note A: Reduction is achieved because remittances will be sent directly to County Treasurer. We have assumed a 30% reduction. Specifying the reduction with any precision is difficult, in part because records of how the service is currently being used are not detailed. This estimate should be quite conservative, based on the fact that nearly half of monthly remittance transactions originate in the Arrowhead Regional Medical Center, which makes daily use of the armored car service.

Schedule 6. Estimated Cost Increases To Centralize Remittance Processing

Personnel Costs:

| | |
|--|------------------|
| Incremental Salary and Benefit Costs to Add One full-time position (Note A) | \$ 45,000 |
| Incremental Payroll and Benefit Costs to Add Two Part-Time Machine Operators (Note B) | <u>40,000</u> |
| Total Estimated Increases | <u>\$ 85,000</u> |

Note A: A position would be added to specifically supervise and monitor payment collections for all County departments, to act as a liaison to individual departments and to trouble shoot any problems related to departmental collections. The projected salary and benefit costs are for a position at the level of Supervising Accounting Technician.

Note B: The County Treasurer has estimated that two part-time employees will need to be added to operate the check processing machine and check operating machine to handle departmental remittances.

IV. SLOW PAY/DELINQUENT COLLECTIONS

This chapter summarizes current department practices with respect to slow pay and delinquent accounts, documents resources and procedures in the Central Collections Department for managing such accounts, and provides recommendations for modifying department practices and procedures.

Current Department Practices

Our analysis, based on interviews with department personnel and review of department documents, indicates that as with billing practices, the policies and procedures of individual departments for managing delinquent accounts are quite variable. Not all departments have written policies and procedures, yet many have slow pay and delinquent accounts receivable that are not being adequately collected. The total value of accounts written off in 2000, as reported by respondents to our survey, was \$1,292,062.

Some departments forward accounts to Central Collections, but this practice is far from universal and, to our knowledge, the County Board of Supervisors has not adopted any standardized collection policies and procedures that each department is required to follow.

Central Collections

The Central Collections Department is responsible for pursuing slow pay, delinquent and bad debts. The Department's Manual specifies that "It is the policy of Central Collections to maximize revenues for the County of San Bernardino through diligent and cost-effective efforts of account collection within the guidelines of legal, ethical and moral standards."

Organization

Central collections currently has the full time equivalent of 88.5 employees in two divisions - the Collections Division and the Accounting and Support Division. The Collections Division is responsible for all phases of the collection of established accounts, including any court action required for collection within applicable legal guidelines. There are 27 collection officers supported by five collection clerks. Collection supervisors as well as collection officers/clerks are well versed in the Fair Debt Collection Practices Act and those statutes and ordinances that allow the collection of a debt owed to the County agencies and departments.

The Accounting & Support Division is responsible for the establishment and maintenance of accounts: receipt, distribution and reconciliation of income; budget preparation and monitoring; expenditures and accounts payable, posting of daily transactions, loading newly assigned accounts and other accounting tasks.

Automated Systems

Centralized Collections uses state-of-the-art collection software designed specifically for collection agency application. This system allows staff to efficiently work accounts assigned for collection and provide reports to meet management and client needs. Accounts may be assigned manually, by tape or disc. This system is supported by Central Collections automated system analysts as well as Information Services staff members. The collector system interfaces with a number of databases at the state and county level to provide an effective collection tool. It supports the accounts of the County Medical Center, Courts, and the Probation Department.

Collection Procedures

1. Pre-Collection Services:

- Slow pay accounts are handled through a process referred to as "Pre-collection Services." While an account is in precollect status, a series of customized notices are sent to the debtor, urging payment. If no payment is made by a designated date, generally 30 to 60 days, the account is automatically assigned to a collections officer ("Collection Services").
- If all previous collection efforts fail, Central Collections may initiate legal action, including liens and the garnishment of wages.

2. Assignment to Collections:

- Once an account is assigned to Collection Services, at least three collection notices are sent out approximately ten (10) days apart. At the conclusion of this letter series, the debtor is generally contacted by phone to make a demand for payment and, if necessary, set up a payment plan.

3. Credit Bureau Reporting:

- Where permitted by law, 60 days after the date of assignment, all delinquent accounts will be reported to a credit bureau (i.e. TRW).

- Accounts which have been paid subsequent to assignment and which have been reported to a credit bureau as a collection account will subsequently be reported as a paid collection account.

4. Legal Action:

Central Collections has a variety of resources for taking legal action regarding bad debts. The Department's Manual specifies that such actions are to be taken "when all efforts to voluntarily collect the debt have failed, provided the debtor has sufficient assets from which to satisfy the judgment." Among the actions available to the Department are the following:

- File suit. The primary assets to be given consideration are earnings and real property or such other tangible assets having monetary value (i.e. cars, planes, boats).
- Request a writ of execution be issued on an already existing court order to prompt payment.
- Garnish wages. By statute, the Department may garnish 25% of a debtor's disposable earnings.
- Tax intercept program. This program allows the amount of the judgment to be offset from the debtor's State tax return.

The Department has carefully specified the procedures by which any legal actions may be taken. For example, to file suit, a collector must complete a legal data sheet and submit it to his or her supervisor for approval. The sheet will be reviewed to ensure that the proper parties have been named, assets have been verified, the amount owing is in excess of \$100 and an address to effect service has been recently verified. Following supervisor approval, an account is given to a collection clerk, who is then responsible for securing judgment, executing on the asset, and submitting the account to tax intercept to file a satisfaction with the court when the account is paid in full.

Handling of Accounts

The Department Manual carefully specifies how any account is to be handled. This system maximizes the ability to tabulate and access information, and also ensures accountability through the many steps that an account may take. The process for communicating with any one debtor is also carefully specified and standardized, which enhances internal control, ensures accountability, and increases the probability of

effective collections efforts. Specific procedures are detailed for the handling of accounts where the debtor's whereabouts are unknown, a process referred to as "skiptracing."

- **Assignments of Accounts to a Collector's Unit:**
 - Each collector will be responsible for the accounts assigned to his/her unit.
 - Assignment of accounts will be by disc or manually loaded and disbursed to each collector based upon their assigned alpha series.
 - Once assigned to a collector's unit the account by automation will appear on the collector's WIP list (work in progress).
 - Accounts are prioritized on the collector's WIP list by descending balance and new work is given priority over older accounts.
 - Once the collector has worked the account, the collector shall assign a priority code to the account and the next work date. The account will reappear on the collector's WIP list on the date to be worked and by the priority code.

- **Working the Account/Debtor Contact:**

The Department Manual specifies the following procedures:

Once the debtor has been contacted, the collector shall:

- a. Verify the debtor's name, address, identify his/herself and the nature of the call.
- b. Acquire the debtor's social security number, date of birth, place of employment, banking information and income for the debtor as well as his/her spouse. Acquire the name and address and phone of next of kin.
- c. Demand payment in full. Source of payment:
 - 1) Cash, check or money order
 - 2) Post dated check
 - 3) Credit card
 - 4) Third party recovery
 - 5) Insurance/Medi-Cal
 - 6) Victims program

- d. If the debtor is unable to pay the balance in full, the collector may establish a payment plan with the debtor once the debtor has completed a financial statement, which justifies such an agreement.
- e. When reviewing the debtor's financial statement, disposable earnings will determine the amount of the payment. Not all items given on the financial statement are to be given consideration without question. A reasonable person test is to be applied and items which are excessive are to be excluded.

Note: If the debtor refuses to pay an amount supported by the financial statement, calculate the amount of earnings that would be subject to a wage garnishment and advise the debtor accordingly. This may be done by multiplying the debtor's gross income times 22.5% and subtracting this amount from gross income to determine disposable earnings. You must then multiply disposable earnings by 25% the amount that you would receive if you were to garnish the debtor's wages. If this amount is equal to or more than the requested payment plan amount, the debtor should realize it is in his/her best interest to accept your payment plan offer. Otherwise, the debtor will incur a greater loss of their income in the event you elect to garnish their wages.

- f. Credit reports may be obtained when necessary to determine the debtor's ability to pay.
 - g. All payment arrangements are to be set up on the system's automated payment plan for follow up.
- Process for Tracing Debtors

If the debtor's whereabouts are unknown, Central Collections uses various resources to locate the debtor, a process referred to as "Skiptracing". Resources include the following:

- Call information for a new phone number.
- Check return mail address correction requested.
- Use crisscross directory for nearbys
- Check phone book for multiple phone listings.
- Request HRDs (Employment Development Department form).
- Request credit report.
- Check DMV.
- Check assessors screen for property ownership.
- Check welfare screen.
- Review application, contract, admission record, financial statement for additional information.

Recommendations for Slow Pay and Delinquent Accounts

Based on our review of current department practices and the current practices and capabilities of the Central Collections Department, we recommend the following:

1. That the County Board of Supervisors adopt a policy requiring all County departments to adopt written policies and procedures with regard to slow pay and delinquent accounts. Each department could either adopt the established policies and procedures of Centralized Collections, or prepare its own policies and procedures tailored to the specific type of client or customer serviced by that department.
 - a. Each department should be required to adopt a dollar limit and time limit over which an account is subject to collection. Estimated collection costs should not exceed the value of the overdue account being collected.
 - b. At a minimum, each department's collection policy should provide for:
 - The mailing of a series of delinquency notices
 - Follow-up phone calls
 - Skiptracing
 - Assessment of late payment penalties/fees
 - Legal action, when necessary

Where possible, the specific terms of each of the above provisions should be consistent with those of Central Collections. For example, delinquency notices should be mailed at 10-day intervals. Procedures for making contact with the debtor should be scripted following the Central Collections Department model. Departments may review options for assessing late payment penalties; such penalties would typically not exceed 1% for every 30 days of delinquency. However, the development of any policy with respect to late penalties must be done in coordination with and pending advice from County Counsel. Existing laws or regulations may constrain a department's ability to impose such penalties.

- c. If a department is too small to perform all of these functions or cannot perform these functions in a cost effective manner, then the department should be required to utilize Central Collections.
2. For those County departments that utilize Central Collections, we recommend a "two-tier" cost structure for collection fees that are charged back against departmental operations: one for "slow pay" accounts, and another for accounts which a department decides should be assigned for collection.

- a. For "slow pay" accounts that are in "Precollection Services," County departments should be billed on a cost reimbursement basis. Such costs would include the direct salary cost of the collection employee, postage and processing costs and a reasonable allocation of Central Collections indirect costs. Under no circumstances should the charges for "Precollection Services" exceed 15% of the account being collected.
- b. Each department would decide if an account should be assigned for collection. Once the account is assigned, Central Collection would charge a fee ranging from a minimum of 16% to a maximum of 25% depending on the nature of the account and the extent of the collection effort.

Overall, the goal of the recommended cost structure should be to encourage individual departments to make use of the considerable resources and expertise resident in Central Collections. Our analysis indicates that one potential obstacle to more widespread use of Central Collections is the fees involved. Departments should be more likely to use Central Collections if fees can be structured so that they are sensitive to the volume and characteristics of a given account.

Costs and Benefits of Recommendations

Adoption of the policy described above should yield financial benefits in the form of more timely collection of delinquent accounts. It should also produce increased revenue from collection of debts that would otherwise be written off.

If the above policy is adopted by the County Board of Supervisors, and if a significant number of County departments begin to utilize Central Collections, this could result in Central Collections adding additional collection agents, and a corresponding reduction in collection costs at the department level. We have not attempted to quantify the dollar magnitude of such changes in operations. It is important to note that departments currently absorb the costs of pursuing delinquent accounts—costs that might be more efficiently managed by Central Collections. To the extent that individual departments turn their pre-collections and collections needs over to Central Collections, those departments should realize savings, so that the net cost to the County is zero.

The proposed policy will also yield enhanced internal control, because more information will be gathered on the status of any one account, and that information would be available centrally.

February 13

- Dick Larsen, County Treasurer/Tax Collector
- Carl T. Cline, Assistant Director of Collections
- Mark Mathers, Cash Manager/Investment Officer

February 16

- Larry Walker, County Auditor-Controller
- Pat Cole, Manager, Payables
- Aly Saleh, Chief Deputy Auditor
- Martha Williams, Manager, Internal Audits
- Sandy Kelly, Manager, General Accounting

February 20

- Bill Ingraham, and Robin German, Airports
- Claudia Rozzi, Behavioral Health
- Bob Farrar and Ken Miller, Public Works

April 19

- Kim Kelly, Vehicle Services
- Sheriff's Department
- Suzan Waterhouse, Child Support
- Robin German, Airports

April 20

- Mark Mathers, Cash Manager/Investment Officer
- Jane Allen, District Attorney's Office
- Chuck Ferrell, Information Services Department
- Edward Hibbard, Arrowhead Regional Medical Center
- Karen Sprague, Assessor's Office
- Claudia Rozzi, Behavioral Health

April 23

- Don Casalman, Solid Waste Management Division of Public Works
- Jeanne Germond, Surveyor Division of Public Works
- Charles Williams, Public Works Department
- Bob Farrar, Transportation Division of Public Works

- Dawn Spelman, Regional Parks Division of Public Works

April 24

- Ruth M. Rice, Land Use Services
- Rodney McCullough, Real Estate Services
- Ken Sorensen, Registrar of Voters

April 25

- Elizabeth Urista and Patty Raynor, Fire Department
- Victoria Mena, Program Generalist

April 27

- Dick Larsen, County Treasurer/Tax Collector
- Danny Tillman, Information Services Manager
- Dennis Draeger, Assistant Tax Collector
- Mark Mathers, Cash Manager/Investment Officer



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Arroyo Associates has been retained by the San Bernardino Grand Jury to conduct a study of the County's cash management processes. The first phase of this study is a survey of Department practices related to billings, accounts receivable and bad debt collections. We appreciate your cooperation in promptly completing the survey below. **We would like to have all surveys and supporting documents mailed to our offices on or before March 9, 2001.** If you have any questions, please contact John Boiney at 626-564-8700.

For each of the following items, please respond in the space provided and/or attach the appropriate documentation. Thank you.

1. **Department Name** _____
2. **Person Completing Survey** _____ **Phone** _____
3. **List of Divisions** _____
4. **Services Provided** _____

5. **Staffing Levels** (FTE, by division, including any devoted specifically to billings/collections)
6. **Revenue and Expenditure Reports** (please attach FAS report with FY2000 actuals and FY2001 budget).
7. **Clients** (Please describe the general types of clients that receive services from your Department, for which they are charged a fee that you must collect) _____

Cash Management Survey continued...page 2 of 2

8. **Points of service**—where do these clients receive your services, and where do they pay for those services, if different. _____

9. **Number of invoices & dollar value, per month, for July 1 through December 31, 2000.**

| | |
|-----------------------|--------------------------|
| July _____ / \$ _____ | August _____ / \$ _____ |
| Sept _____ / \$ _____ | October _____ / \$ _____ |
| Nov _____ / \$ _____ | Decem _____ / \$ _____ |

10. **What proportion of annual transactions are “cash and carry?”** (service received AFTER payment is made.) _____ %

11. **Current statement of accounts receivable** (Number and dollar value--Please attach details)

12. **Year-end statement of accounts receivable** for 1999/2000 and 1998/99.

13. **Number and dollar value of cases forwarded to central or other collections in FY1999/00.**

14. **Number and dollar value of any accounts “written off” in FY1999/00.**

15. **Policies and procedures regarding**

- a. Invoicing
- b. Credit
- c. Bad debt (e.g. how is “delinquency” defined?)
- d. Documentation, management of accounts receivable (e.g. are accounts aged?)

16. **Does your Department automate any part of its invoicing and collections processes?** (e.g. automatic triggering of follow-up invoices after a certain number of days)

THANK YOU AGAIN FOR YOUR COOPERATION!

| Department | Staffing Total | Budget (GenFd) Total | Clients | Invoices | | |
|-------------------------|-------------------|-------------------------|--|---------------|----------------------|------------------------|
| | | | | Mo. Average | | Proj. Annual |
| | | | | Number | Value | |
| Agriculture | 68 | \$ 4,490,832 | Stores using price scanners, businesses manufacturing or packing | 569 | \$208,466 | \$2,915,830 |
| Airports | 29 | \$ 2,415,162 | Pilots, small businesses, govt agencies | 365 | \$227,432 | \$2,729,186 |
| Arrowhead | | | Patients | 36,206 | \$ 35,517,683 | \$426,212,198 |
| Assessor | 210 | \$ 10,684,193 | Public, cities, water districts, title companies, private businesses | 36 | \$6,789 | \$81,473 |
| Auditor | 176 | \$ 10,415,522 | | 1,062 | \$1,500,680 | \$18,008,160 |
| Behavioral Health | 770 | \$ 93,093,633 | Mentally ill, substance abusers, & people receiving public/ social | 2,522 | \$2,423,513 | \$29,082,159 |
| District Attorney | 435 | \$ 28,967,187 | | n/a | n/a | \$22,000,000 |
| County Fire Total | | | | 1,467 | \$502,757 | \$6,033,086 |
| Ambulance Billing | | | Residents of community (info for all fire districts inc) | 329 | \$278,438 | \$3,341,256 |
| Auto parts/repairs | 30 | | OES, ColtonFD,MorenoValleyFD,SB Airport, SBCC, & City of Loma Linda | 3 | \$4,771 | \$57,249 |
| Cost Recovery | 1 | | Persons/ businesses in community that req. emergency response in | 53 | \$56,949 | \$683,389 |
| Hazmat Permit Billing | | | Businesses w/underground storage tanks, generator or hazardous waste | 1,083 | \$162,599 | \$1,951,192 |
| HumRes/RiskMgt | 53 | \$ 6,243,653 | Departments and employees | 46 | \$40,585 | \$487,017 |
| Information Services | 378.2 | \$ 41,576,646 | Internal Service (SBCTy) | 36 | \$146,948 | \$1,763,374 |
| Land Use Services | 138 | \$ 14,035,684 | Building Safety, Code Enforcement, planning, habitat conservation, weed | 398 | \$960,494 | \$4,325,932 |
| Library | 200.1 | \$ 10,747,614 | Library Patrons | n/a | \$47,915 | \$574,982 |
| Public Works Total | | \$ 149,728,247 | | 1,012 | \$ 2,798,857.80 | \$ 33,586,294.74 |
| Transport-Permits | 305 | | | 336 | \$ 27,450.33 | \$329,404 |
| Transport-Misc | 305 | \$ 28,454,735 | Public, other govts, businesses | 5 | \$ 427,064.54 | \$5,124,775 |
| Flood Control | 151 | | Public, govts, businesses | 17 | \$ 58,434.09 | \$877,209 |
| GIMS | 5 | \$ 415,127 | | 8 | \$3,721 | \$44,850 |
| Regional Parks | 50 | \$ 11,593,924 | | 301 | \$68,199 | \$818,382 |
| Survayor | 34.6 | \$ 905,817 | | 100 | \$5,934 | \$71,205 |
| Solid Waste | | \$ 64,793,569 | Haulers, military, cities, businesses, individuals | 246 | \$2,210,056 | \$26,520,670 |
| Real Estate | 24 | \$ 1,097,016 | Other County Depts., Other govt agencies | 34 | \$13,281 | \$159,132 |
| Registrar of Voters | 32 | \$ 2,682,194 | All cities, school districts, college districts, and special districts located | 12 | \$298,313 | \$3,579,754 |
| Sheriff | | \$ 226,635,524 | Other govt agencies. | 53 | \$4,708,983 | \$56,507,800 |
| Treasurer/Tax Collector | 55.3 | \$ 4,820,510 | Taxpayers- property tax collection; Invest- Manage funds for Co., schools | | \$353,427,669 | \$1,060,283,006 |
| Central Collections | 88.5 | \$ 6,142,170 | Courts, Arrowhead Medical Center, Public Defender and othe Co. Depts | | \$452,460 | \$5,429,514 |
| Vehicle Services | 113 | \$ 21,042,623 | Govt agencies | 26 | \$98,187 | \$1,178,242 |
| Water and Sanitation | | | property owners and contractors | 10,805 | \$790,652 | \$9,486,620 |
| Crestline Sanitation | | | Homeowners, businesses, schools | 2,736 | \$187,998 | \$2,015,980 |
| TOTAL | | | | 57,384 | \$403,287,084 | \$1,681,010,227 |
| AVERAGE | | | | 3,376 | \$21,225,636 | \$84,050,511 |

| Department | Accounts Receivable | | | | Accounts to Central Collections | |
|-------------------------|---------------------|----------------------|----------------|----------------------|---------------------------------|---------------------|
| | Current | | 2000 | | Number | Amount |
| | Number | Amount | Number | Amount | | |
| Agriculture | 22 | \$ 299,501.69 | 2 | \$ 21,716.44 | 64 | \$ 6,100.33 |
| Airports | 220 | \$ 284,593.96 | n/a | n/a | 7 | \$ 240,667.39 |
| Arrowhead | 205,769 | \$ 170,828,322.00 | 215,278 | \$ 161,305,874.00 | 60368 | \$ 58,433,197.00 |
| Assessor | 68 | \$ 15,918.20 | 324 | \$ 181,522.60 | 0 | \$ - |
| Auditor | 187 | \$ 1,702,290.00 | 131 | \$ 64,952.00 | 453 | \$ 29,019.00 |
| Behavioral Health | 2,443 | \$ 2,320,834.71 | n/a | n/a | 314 | \$ 142,458.66 |
| District Attorney | n/a | n/a | n/a | n/a | n/a | n/a |
| County Fire Total | 2,485 | \$ 968,583.38 | 2,017 | \$ 1,537,885.29 | 411 | \$ 280,231.85 |
| Ambulance Billing | 2,294 | \$ 746,166.00 | 1,756 | \$ 1,150,640.00 | 383 | \$ 252,015.00 |
| Auto parts/repairs | n/a | \$ 4,504.15 | n/a | \$ 135,821.34 | 0 | \$ - |
| Cost Recovery | 191 | \$ 96,168.75 | 259 | \$ 124,287.31 | 28 | \$ 6,216.85 |
| Hazmat Permit Billing | n/a | \$ 121,754.48 | n/a | \$ 127,136.64 | n/a | n/a |
| HumRes/RiskMgt | n/a | n/a | n/a | n/a | n/a | n/a |
| Information Services | 149 | \$ 450,044.29 | n/a | \$ 10,420.00 | 0 | \$ - |
| Land Use Services | n/a | n/a | n/a | n/a | < 50 | n/a |
| Library | n/a | n/a | n/a | n/a | n/a | n/a |
| Public Works Total | 621 | \$ 7,193,152.78 | 182 | \$ 6,252,893.58 | 21 | \$ 11,662.63 |
| Transport-Permits | 63 | \$ 11,022.00 | n/a | n/a | 0 | \$ - |
| Transport-Misc | 76 | \$ 3,619,960.49 | 40 | \$ 1,749,376.38 | 21 | \$ 11,662.63 |
| Flood Control | 39 | \$ 128,970.80 | 39 | \$ 20,196.54 | 0 | \$ - |
| GIMS | 35 | \$ 10,535.00 | 16 | \$ 3,431.00 | 0 | \$ - |
| Regional Parks | n/a | n/a | n/a | \$ 231,639.00 | 0 | \$ - |
| Surveyor | 92 | \$ 4,009.49 | 87 | \$ 5,101.68 | 0 | \$ - |
| Solid Waste | 296 | \$ 3,418,655.00 | n/a | \$ 4,243,149.00 | 0 | \$ - |
| Real Estate | 25 | \$ 8,576.39 | n/a | n/a | 0 | \$ - |
| Registrar of Voters | 14 | \$ 1,019,672.91 | 19 | \$ 1,318,678.00 | 0 | \$ - |
| Sheriff | n/a | \$ 4,900,000.00 | 7 | \$ 17,073,784.00 | 0 | \$ - |
| Treasurer/Tax Collector | n/a | \$ 600,676,390.00 | n/a | \$ 51,960,432.00 | 6000 | |
| Central Collections | n/a | n/a | n/a | n/a | n/a | n/a |
| Vehicle Services | 134 | \$ 399,004.52 | 57 | \$ 151,034.58 | 0 | \$ - |
| Water and Sanitation | 9,709 | \$ 604,947.41 | n/a | \$ 447,960.00 | 411 | \$ 66,612.82 |
| Crestline Sanitation | 4,553 | \$ 331,958.76 | 4,224 | \$ 217,858.13 | 39 | \$ 4,411.03 |
| TOTAL | 226,399 | \$792,001,791 | 222,241 | \$240,545,011 | 88,088 | \$59,194,561 |
| AVERAGE | 16,171 | \$49,500,112 | 22,224 | \$18,603,462 | 5,506 | \$3,948,304 |

Note: Regional Parks Undergoing major reorganization in July 2000, in process of automating Accounts Receivable.

Note: Central Collections received a total of 104,170 accounts totaling \$63,205,366 in court fines and delinquent county accounts in FY99/00.

APPENDIX C-DEPARTMENT DATA

| Department | Written Off Accounts | | Age Accounts? | Frequency of Deposits | Payment Transactions per Month | Personnel Involved In Remittance Processing | Total FTE Involved in Remittance Processing |
|-------------------------|----------------------|---------------------|---------------|-----------------------|--------------------------------|---|---|
| | Number | Amount | | | | | |
| Agriculture | None | \$ - | yes | weekly | 700 | 26 | 0.5 |
| Airports | 7 | \$ 8,253.37 | yes | weekly | 300 | 3 | 1 |
| Arrowhead | n/a | n/a | no | daily | 18,132 | 7 | 3.75 |
| Assessor | 0 | \$ - | no | weekly | 35 | 2 | 0.20 |
| Auditor | 0 | \$ - | no | daily | | 5 | 1 |
| Behavioral Health | 1229 | \$ 304,228.22 | yes | daily | 115 | 2 | 2 |
| District Attorney | n/a | n/a | n/a | daily | 45 | 2 | 2 |
| County Fire Total | 34 | \$ 972,599.69 | - | - | 2,000 | 7 | 7 |
| Ambulance Billing | | \$ 950,901.00 | yes | daily | n/a | 2 | 2 |
| Auto parts/repairs | 0 | \$ - | no | daily | n/a | 1 | 1 |
| Cost Recovery | | \$ 6,092.71 | yes | daily | n/a | 1 | 1 |
| Hazmat Permit Billing | 34 | \$ 15,805.98 | yes | daily | n/a | 1 | 1 |
| HumRes/RiskMgt | 0 | \$ - | n/a | n/a | 40 | 3 | 0.2 |
| Information Services | 0 | \$ - | no | weekly | | | |
| Land Use Services | n/a | n/a | no | daily | 4 | 1 | 0.1 |
| Library | n/a | n/a | No | various | 350 | 1 | 0.2 |
| Public Works Total | 1 | \$ 3,100.00 | - | - | 1,630 | 17 | 1.20 |
| Transport-Permits | 0 | \$ - | no | 2-3 times/week | n/a | n/a | n/a |
| Transport-Misc | 1 | \$ 3,100.00 | no | 2-3 times/week | 70 | 3 | 0.18 |
| Flood Control | 0 | \$ - | no | 2-3 times/week | 87 | 3 | 0.20 |
| GIMS | 0 | \$ - | no | weekly | 10 | 3 | 0.03 |
| Regional Parks | 0 | \$ - | no | weekly | | 3 | 0.13 |
| Surveyor | 0 | \$ - | no | weekly | 79 | 4 | 0.17 |
| Solid Waste | 0 | \$ - | no | daily | 1,384 | 1 | 0.5 |
| Real Estate | 0 | \$ - | | weekly | | | |
| Registrar of Voters | 0 | \$ - | no | weekly | 5 | 2 | 0.01 |
| Sheriff | 0 | \$ - | no | 2 times/week | 60 | 4 | 1.7 |
| Treasurer/Tax Collector | 0 | \$ - | n/a | n/a | n/a | n/a | n/a |
| Central Collections | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Vehicle Services | 0 | \$ - | n/a | weekly | | | |
| Water and Sanitation | 288 | n/a | yes | daily | 10,707 | 4 | 0.99 |
| Crestline Sanitation | 33 | \$ 3,880.32 | yes | daily | 2,072 | 2 | 0.29 |
| TOTAL | 1592 | \$ 1,292,062 | | | 96,195 | 88 | 722 |
| AVERAGE | 106 | \$86,137 | | | 2413 | 6 | 1 |