

WENDY GREUEL  
CONTROLLER

July 1, 2010

The Honorable Antonio Villaraigosa  
The Honorable Carmen Trutanich  
Honorable Members of the City Council

The City's Office of Finance oversees the collection of more than \$2 billion annually in taxes, licenses, permits, fees and fines. With the City facing a multi-million dollar long-term budget deficit, it is critical that every dollar owed to the City is collected in a timely manner. Any uncollected money widens the budget deficit and forces even more draconian cuts to important services that Angelenos depend upon, including public safety and public works.

That is why in 2007, the Controller's office conducted an audit, which found the City's billing and collections practices were outdated. With the City desperate for revenue, we have conducted the attached follow-up audit of the City's billings and collections practices.

Although some progress was made, it appears that the City remains stuck in the mud in making the structural changes necessary to collect the money owed to it. While we found that 64% of the audit recommendations had been implemented, the most important recommendation to implement a centralized collection process in order to increase the amount of money collected, has not yet been implemented. The major findings of the previous audit remain unimplemented, while hundreds of millions of dollars the City should receive – and desperately needs - remain uncollected.

Overall, for the departments we sampled, we found that **only 53% of the City's bills were collected**. The Departments we audited billed a total of \$553.4 million for fiscal year 2008-09, and only collected \$293 million.

The most egregious examples of uncollected funds are parking citations and Emergency Management Services (EMS) billing accounts, where the City is only collecting 53% and 38% of the money it is owed, respectively. There is no question that not all of this money is ultimately collectable for a variety of reasons, but it is outrageous and unacceptable that the City has not made more progress.

Some of the key findings of the audit include:

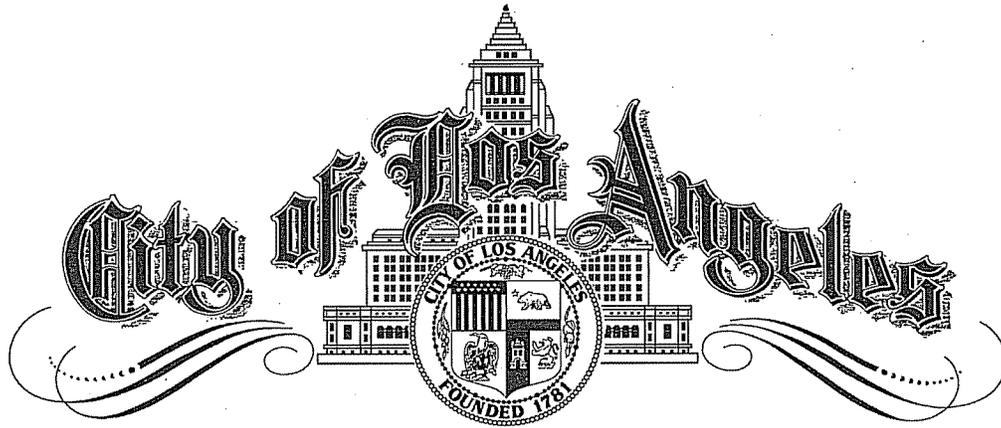
- The City still has not created a centralized billing process under the Office of Finance, which should result in millions in increased collections.
  - While the City finally hired a consulting firm to provide a blueprint for implementing a centralized process, no action has been taken to implement the proposals. More than three years later, the City should have made more progress.
  - We believe the consultant's report is overly optimistic about how much the City could generate from centralization. The consultant estimates an additional \$274 million could be collected over the next six years, while the Fire Department believes that only \$10 million could be recovered. It's also important to note that the consultants savings would come from outsourcing EMS billings, not from increased centralization.
- The Police Commission and Fire Department do not refer delinquent accounts to the Office of Finance or an outside collection agency quickly enough.
  - The Fire Department had not referred 60% of the accounts within 45 days, which is the Department's policy.
  - The Police Commission sat on nearly \$500,000 worth of delinquent accounts, even though many were two to four years old.
- The Fire Department needs to hire a contractor to ensure that accurate billing information is collected when an EMS service is provided, which they have been talking about for over 3 years.
  - The Department was in the process of preparing a Request for Proposal for a contractor in June 2007, yet no contractor has been hired.

Unfortunately the question posed by the original audit is still unanswered today "How can we ask taxpayers for more money or continue to complain about inadequate funds, when untold millions of dollars remain uncollected?"

Sincerely,



Wendy Greuel  
City Controller



WENDY GREUEL  
CONTROLLER

July 1, 2010

Antoinette Christovale, Director  
Office of Finance

Enrique C. Zaldivar, Director  
PW/ Bureau of Sanitation

Millage Peaks, Fire Chief  
Los Angeles Fire Department

Charlie Beck, Chief of Police  
Los Angeles Police Department

Richard Tefank, Executive Director Police Commission  
Board of Police Commissioners

Enclosed is the report entitled, "Follow-up Audit of Citywide Billing and Collection Practices." A draft of this audit report was provided to your offices. Comments provided by your Departments at exit conferences held in June 2010, were evaluated and considered prior to finalizing this report.

Please review the final audit report and advise the Controller's Office by August 2, 2010 on planned actions you will take to implement the outstanding recommendations. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

FARID SAFFAR, CPA  
Director of Auditing

Enclosure

cc: Reverend Jeff Carr, Chief of Staff, Office of the Mayor  
Jimmy Blackman, Deputy Chief of Staff, Office of the Mayor  
Eileen M. Decker, Deputy Mayor, Office of the Mayor  
Ben Ceja, Deputy Mayor, Office of the Mayor  
John Mack, President, Board of Police Commissioners  
Genethia Hudley-Hayes, President, Fire Commissioners Board  
Cynthia M. Ruiz, President, Board of Public Works  
Miguel A. Santana, City Administrative Officer  
June A. Lagmay, City Clerk  
Gerry F. Miller, Chief Legislative Analyst  
Independent Auditors



# **City of Los Angeles Office of the Controller**

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## **Follow- up Audit of Citywide Billing and Collection Practices**

July 1, 2010

**Wendy Greuel**  
City Controller

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## TABLE OF CONTENTS

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<b>EXECUTIVE SUMMARY.....</b>	<b>1</b>
<b>BACKGROUND AND METHODOLOGY.....</b>	<b>8</b>
<b>CENTRALIZATION OF BILLING AND COLLECTION PRACTICES.....</b>	<b>11</b>
<b>PRIOR RECOMMENDATIONS NOT YET IMPLEMENTED .....</b>	<b>16</b>
<b>ATTACHMENT I .....</b>	<b>27</b>
<b>ATTACHMENT II .....</b>	<b>40</b>

## **FOLLOW-UP AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**

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### **EXECUTIVE SUMMARY**

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A goal of any organization should be to collect what it is owed. The benefits of an efficiently run revenue program include increased revenue, more accurate cash forecasting, greater interest earnings on investments, consistent and equal treatment of taxpayers, and greater budgetary control. In today's economic environment, it is more important than ever for the City to collect what it is owed.

The City generates revenue from a variety of sources, including fees for services, penalties and fines, and permits. Whenever practical, revenues are collected up-front. When up-front collections are not practical, the account is billed. City policies require departments to bill accounts within five days of providing service. The customer is then given thirty days to make payment. If payment still has not been received, the account is considered to be delinquent. Within 45 days of delinquency, departments are required to refer accounts under \$5,000 to an outside collection agency. Accounts of \$5,000 or more should be referred to the Office of Finance's Citywide Collection Unit.

The Office of Finance (OOF) was created as a department by Charter reform in 2000. The OOF's duties include developing guidelines for collecting outstanding receivables and making recommendations to the Mayor and Council concerning the efficient organization of the City's revenue collection functions. In addition, OOF is responsible for collecting over \$2 billion in various taxes, licenses, permits, fees, and fines.

To aid departments in maximizing their collections and to establish some uniformity in processes throughout the City, OOF developed Citywide Guidelines to Maximize Revenue Collections (Guidelines). The Mayor's Office has issued several directives to instruct departments to comply with the Guidelines. The Mayor has also directed OOF to monitor referrals and compliance with the Guidelines and to advise the Mayor's Office of departments' progress. To accomplish this, OOF submits quarterly and annual accounts receivable reports to the Mayor, which includes statuses and recommendations. As of February 2010, Finance sends these reports jointly to the Mayor and Council for their consideration.

In June 2007, the Controller's Office issued an audit report on Citywide billing and collection practices which contained 35 recommendations. Some of the key findings from that audit included the following:

- At any point in time, the City was unable to accurately determine its accounts receivable.
- Departments do not have effective processes in place to ensure that a billing occurs for every billable service provided.
  
- Departments do not always follow key aspects of the Citywide Guidelines.

The primary objective of this follow-up was to determine whether the City has made progress in improving its accounts receivable practices by implementing recommendations from the previous audit. For our follow-up audit, we conducted fieldwork at three departments from the same six departments covered in the original audit. The selection was based on the significance and the number of recommendations addressed to the departments. We also evaluated the Police Department's progress with respect to the seven recommendations related to management of account receivables from the Audit of the Fiscal Operations of the Los Angeles Police Department, issued in March 2007.

One of the key recommendations in the June 2007 audit was for the Mayor to direct the Office of Finance to consider the feasibility of centralizing billing functions under the Office of Finance. Centralizing would allow the City to know its total amount outstanding in accounts receivable at all times. It would also help minimize other problems noted in our 2007 audit, such as untimely follow up of collections and untimely referrals of delinquent accounts, which should result in increased collections for the City.

In response to our audit, OOF convened a Centralization Working Group, composed of representatives of several departments, to develop a Task Order Solicitation to study the feasibility of centralizing collections. The Centralization Working Group hired Macias Consulting Group (Macias) to conduct the study.

After review by the Centralization Working Group, Macias issued its final report on December 21, 2009, which included an implementation plan for the City to consider, should it decide to proceed with the centralization proposed in the report. As part of our audit, we evaluated the feasibility study for reasonableness.

The audit was performed in accordance with Generally Accepted Government Auditing Standards. This follow-up audit covered billing and collection activities from July 2007 through December 2009. Fieldwork was conducted between January 2010 and April 2010.

## **SUMMARY OF FOLLOW-UP RESULTS**

Our follow-up noted several improvements that have occurred since the original audit. For example:

- The Mayor requires departments to submit quarterly reports of their billing and collection activities to OOF. These reports are used to identify potential problem areas.
- Some departments have begun requesting write-offs for old, uncollectible accounts.
- OOF has worked with the Police Commission and the Department of Transportation so that uncollected false alarm billings are now referred for collection and so that certain parking citation billings will be referred for collection.
- City Council approved the referral of emergency medical services (EMS) delinquent accounts to collection agencies. Our prior audit noted that the Fire Department (LAFD) had never forwarded delinquent EMS accounts for collection. Since the prior audit, the Fire Department has forwarded approximately \$106 million in delinquent accounts to a collection agency.
- Overall, our Follow-Up Audit found that departments have implemented or partially implemented 89% of the original 35 recommendations contained in the 2007 Audit of Citywide Billing and Collection Practices. With respect to the LAPD Fiscal Operations Audit, five of the seven recommendations (71%) have been fully implemented.

Despite these efforts, based on information in quarterly reports submitted by departments, there has been no significant change in either billings or collections between FY 2007-08 and FY 2008-09 for six large departments we analyzed. Also, between these two years, these departments did not improve the percentage of accounts receivables over 120 days old. The departments continued to show that about 75% of receivables have been outstanding for at least 120 days.

We believe that the City should be able to substantially improve its billing and collections through more centralization. Hiring Macias to conduct the feasibility study was the first step in this process. The City must now use the results of the study and begin developing a strategy and concrete plans for moving towards centralized billings and collections. In implementing plans to move towards centralization, it is critical for the City to leverage functionalities that will be built into the City's new Financial Management System (FMS) to effectively manage its receivables.

As previously indicated, Macias completed its study in December 2009. As part of the adoption of the Three Year Plan for Fiscal Sustainability, the City Council instructed the OOF to implement the first phase of the consolidation of the City's accounts receivable systems. However, the Council action did not identify or authorize funding, nor did it approve a plan for this implementation. The OOF and the City Administrative Officer has been working with the Budget and Finance Committee to resolve funding issues and to develop an implementation plan. It is imperative that the City allocates adequate resources to ensure successful implementation of its proposed centralized process.

The following comments are on centralization, as well as other issues that still need to be fully addressed.

- **Although we agree with the centralization concepts in the Macias report, the consultant's EMS revenue estimates may be too high. Given the current economy and the unknown effect of the newly enacted health care law, City officials should be cautious of relying on high revenue projections that may not materialize.**

Centralizing billing and collection functions into one department should result in better management of collections. In response to our prior audit, OOF hired Macias Consulting Group (Macias) to conduct a study to assess the feasibility of centralizing billing and collection activities under one department.

While Macias' report acknowledged that not all of the City's billing types can be centralized, it concluded that some centralization is feasible. In general, we agree with the billing centralization concepts proposed by Macias. However, we believe that certain aspects of its plan should be implemented differently, resulting in potential reduced costs and enhanced revenues. For example, Macias recommended that the City contract with a vendor to develop a portal to accommodate the report development and enhanced performance metrics proposed in its report. Based on discussions with ITA's FMS Project Team, the new FMS could probably achieve the same objective at a much lower cost. Also, we believe that the City could immediately increase its oversight over EMS and parking citation billings, instead of waiting until Phase II as suggested by the feasibility study.

We also noted that Macias' net revenue estimate from centralization is overstated. For Phase II, they estimated increased net revenues of \$274 million over a six year period with \$251 million of this amount attributed to increased EMS billings. Almost all of this amount is due to outsourcing EMS billings and not from increased centralization. In addition, the \$251 million estimate is significantly higher than LAFD's estimate of \$10 million. Macias' estimate was based on the City's ability to increase its EMS revenue recovery rate from 44% to 85%. The consultant indicated that, based on its experience, it is not uncommon for agencies to realize an initial revenue recovery rate of 87 to 95 percent through outsourcing.

The Fire Department believes the consultant's estimate is grossly overstated. For example, the Fire Department stated that its accounts receivable reports show its collection rate is approximately 65% of the adjusted amount invoiced. The Department indicated that Macias' figure of 44% may be based on the gross amount billed (as opposed to the adjusted amount). It further explained that this measurement is inappropriate because for Medi-Cal and Medicare billings, the Department is legally precluded from pursuing collection on the difference between the gross amount billed and the amount paid by Medi-Cal/Medicare. Also, the Fire Department stated that its studies indicate that its collection rate of 65% is higher than similar agencies.

While we agree that outsourcing EMS billings and earlier involvement from the OOF to collect on delinquent accounts should result in increased net revenues, it may be too optimistic to expect that these actions would generate over \$60 million (over 100%) in additional EMS revenues annually (after the second year of outsourcing).

Because of the huge gap between the consultant's and the Fire Department's revenue estimates, and given the current economy and the unknown effect of the newly enacted health care law, City officials should be cautious of relying on a high revenue projections that may not materialize. However, it should be noted that even excluding the \$251 million, the study shows that the City's net revenue should increase by several million dollars over the next six years - the time period covered by the study.

In the case of EMS billings, the issue of whether the oversight of the billing vendors should be a shared responsibility between the OOF and the Fire Department or solely the responsibility of OOF needs to be resolved. Macias recommended, and the Fire Department concurred, that a shared responsibility is optimal. The OOF, however, believes that it should have sole responsibility for monitoring the vendors.

We believe that in order to avoid confusion and increase accountability, one department should be responsible for monitoring billing vendors. Since the Office of Finance's core business is revenue collections, it may be more efficient to place the responsibility for monitoring EMS billing vendors in that office. However, since Fire Department provides EMS services, it should continue to be responsible for ensuring that sufficient information is provided to the billing vendor to ensure accurate claim processing. In addition, for the Office of Finance to successfully take over monitoring EMS vendors, it is imperative that the two departments initially work closely together and with the vendors, to work out details in order to ensure a smooth transition.

- **Before finalizing its EMS vendor contracts, the Fire Department should meet with the vendors to identify controls that will need to be in place to ensure that accurate billing information is captured for every EMS service provided. The Department should consider incorporating the identified controls to achieve this objective into the final contracts.**

The 2007 audit found that LAFD did not have an adequate process to ensure that, for each medical transportation service provided, adequate billing information is collected. As a result, there is a potential for lost revenue.

LAFD is in the process of contracting with a vendor for a field data capture system, which will allow billing information to be captured and submitted in a more efficient manner. LAFD will also be contracting with another vendor to perform Emergency Medical Services (EMS) billings. The Department anticipates that the contracts will be in place by August 2010. LAFD should place a high priority in ensuring this timeframe is met. Our June 2007 report noted that the Department was in the process of preparing a Request for Proposal for the field data capture system, and as of February 2008, it reported that the contract should be in place by June 2008. Almost two years later, the contract is still not in place.

In order to maximize revenue, LAFD, in coordination with the vendors, should meet to identify controls that will need to be in place to accurately capture billing information. The Department should consider incorporating the identified controls to achieve this objective into the final contracts. Once the contracts are in place, LAFD should perform a review to ensure that all emergency medical transportation services provided will result in the required billing information being captured and sent to the contractor to generate invoices in a timely manner.

- **LAFD and the LAPD Commission do not consistently make timely referrals of delinquent accounts to OOF or an outside collection agency.**

Our follow-up audit found that out of 10 accounts tested, LAFD did not refer six in a timely manner, and the LAPD Commission did not refer, in a timely manner, over half a million dollars in old delinquent false alarm accounts. The accounts were not referred at least until December 2009, even though many were two to four years old.

Commission staff explained that the accounts were high dollar accounts for large businesses and that the accounts were held because they believed they would have a better chance than OOF of collecting the accounts. Departments should not be allowed on their own to decide when or whether to refer a delinquent account to the OOF or an outside collection agency. Delinquent accounts should be referred in accordance with established procedures (45 days of delinquency), unless the department can demonstrate that it is in the City's best interest to hold onto the account longer.

The details of each of these and other issues are discussed in sections I and II of this report.

### **REVIEW OF REPORT**

A draft report was provided to OOF, LAFD, LAPD, LAFD, and the Bureau of Sanitation management on May 20, 2010. We discussed the contents of the report with management of departments at various meetings held between May 26, 2010 and June 10, 2010. We considered the comments provided by the departments before finalizing this report. We would like to thank management and staff of these departments for their cooperation and assistance during the follow-up audit.

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## **BACKGROUND AND METHODOLOGY**

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### **BACKGROUND**

A goal of any organization should be to collect what it is owed. The benefits of an efficiently run revenue program include increased revenue, more accurate cash forecasting, greater interest earnings on investments, consistent and equal treatment of taxpayers, and greater budgetary control.

Whenever practical, revenues are collected up-front when a department provides a service. When up-front collections are not practical, the account is billed. City policies require departments to bill accounts within five days of providing service. The customer is given thirty days to make payment. Generally, an account that is not paid within 45 days of the due date or 75 days from the invoice date is considered to be delinquent. City policies require that departments refer unpaid accounts under \$5,000 to one of three collection agencies: NCO Group Inc., Municipal Services Bureau, or AllianceOne. Accounts of at least \$5,000 are referred to the Office of Finance's Citywide Collection Unit. Any account not collected by the Office of Finance is referred to another collection agency, Caine and Weiner, for further collection efforts.

If any department determines either that an account is uncollectible or that an account is not cost effective to pursue further, the account is referred to the Board of Review (consisting of representatives from the Office of the Controller, Treasurer, and Office of Finance) for write-off approval. For accounts over \$5,000, the Council's approval is required to write them off.

The Office of Finance, created in 2000, is responsible for developing Guidelines for collecting outstanding accounts receivable and making recommendations to the Mayor and Council concerning the efficient organization of the revenue collection functions performed by City offices and departments. Over the last several years, the Mayor's Office has issued many directives mandating all departments (except for proprietary departments) to comply with the Guidelines. The Mayor's directives have also directed the Office of Finance to monitor referrals and compliance with the Guidelines and to advise the Mayor's Office of the departments' progress.

The following tables show the two prior years' billing and collection data for six large departments. The information was compiled from quarterly Accounts Receivable reports submitted to the Office of Finance by the departments.

Table 1

<b>Amount Billed For Selected Departments</b>		
<b>Department</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>
Building & Safety	\$ 9,897,084	\$ 10,345,137
Fire Department	\$ 176,267,976	\$ 175,460,015
Housing Department (1)	\$ 54,369,996	\$ 56,947,909
Police Dept.	\$ 14,805,770	\$ 14,663,682
PW-Bureau/Sanitation (3)	\$ 18,411,489	\$ 13,928,850
Transportation (2)	\$ 270,979,853	\$ 282,054,131
	<b>\$ 544,732,168</b>	<b>\$ 553,399,724</b>

(1) - These amounts include only the four revenue source codes that Housing consistently reported on during the eight quarters.

(2) - Transportation did not begin reporting parking fine revenue until the 2nd quarter of FY 2007-08. To allow for a better comparison, we adjusted the FY 2007-08 figures based on the assumption that parking fine revenues were reported for all quarters.

(3) The accounts receivable quarterly reports do not reflect any billings or collections for the first quarter of FY 2008-09 for revenue source codes #4044 (Industrial Waste Fees) and #4061 (Septage Disposal Program Fees). All other quarters reflect an amount.

Source: Quarterly Billing and Collection Reports submitted by departments.

Table 2

<b>Amount Collected For Selected Departments</b>		
<b>Department</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>
Building & Safety	\$ 7,370,387	\$ 8,744,450
Fire Department	\$ 85,179,419	\$ 84,698,223
Housing Department (1)	\$ 38,284,214	\$ 39,353,318
Police Dept.	\$ 6,328,172	\$ 8,649,937
PW-Bureau/Sanitation (3)	\$ 17,255,239	\$ 13,030,636
Transportation (2)	\$ 130,433,656	\$ 138,536,525
	<b>\$ 284,851,087</b>	<b>\$ 293,013,089</b>

(1) - These amounts include only the four revenue source codes that Housing consistently reported on during the eight quarters.

(2) - Transportation did not begin reporting parking fine revenue until the 2nd quarter of FY 2007-08. To allow for a better comparison, we adjusted the FY 2007-08 figures based on the assumption that parking fine revenues were reported for all quarters.

(3) - See footnote #3 in Table 1 above.

Source: Quarterly Billing and Collection Reports submitted by departments.

The tables above show there has been little improvement in either billings or collections in recent years. Billings have increased 2%, while collections have increased 3%. Also, based on a limited analysis for these departments, the figures indicate the City had an

overall collection rate of only 53% for both years. The collection rate is an approximation because the amounts collected for a particular period are not directly associated with the services provided or billed during the same period. However, such variations are smoothed over time, as prior period billings are received. In addition, it is apparent that some types of billable revenue account for a disproportionate amount of uncollectibles (e.g., EMS billings at LAFD; alarm billings at LAPD, and parking citations at DOT).

### **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objective of this follow-up audit was to assess departments' progress in implementing the 35 recommendations in the June 2007 Audit of Citywide Billing and Collection Practices. We also followed up on the seven recommendations related to accounts receivable in the Audit of the Fiscal Operations of the Los Angeles Police Department issued March 2007.

The audit was performed in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This follow-up audit covered program activities from July 2007 through December 2009. Fieldwork was conducted between January 2010 and April 2010. In conducting our audit, we interviewed management and staff of the Office of Finance, the Police Department (LAPD), Fire Department (LAFD) and the Bureau of Sanitation and reviewed applicable policies and procedures to obtain an understanding of the key processes and other actions taken by the departments to implement the recommendations.

On the issue of centralization, we reviewed the feasibility report prepared by Macias Consulting Group (Macias) and interviewed Macias' staff to confirm our understanding of their report and to inquire about how they determined their revenue and cost estimates. We also interviewed City department staff to obtain their input on the report.

Section I of this report discusses our comments on Macias' centralization feasibility report and its implementation plan, and Section II discusses prior recommendations that have yet to be fully addressed. Attachment I provides a summary of actions taken by departments for each of the 35 recommendations contained in the June 2007 Audit of Billings and Collections report, along with the status of each recommendation. Attachment II provides a similar table for the seven recommendations from the March 2007 Audit of Fiscal Operations at the LAPD.

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## **SECTION I: CENTRALIZATION OF BILLING AND COLLECTION PRACTICES**

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The 2007 audit found that the City was unable to accurately determine its accounts receivable at any point in time. Although the Citywide Guidelines require departments to submit quarterly accounts receivable activity reports to the Office of Finance (OOF), many departments did not always submit the required reports. Since there is not one comprehensive Citywide accounts receivable system, the City only knows its total accounts receivable as of June 30th of each fiscal year when City financial statements are being prepared.

The 2007 audit also found inconsistencies in departments' accounts receivable practices. Many departments were not following several key City billing and collection guidelines and the OOF was not providing adequate oversight. For example, departments did not consistently refer delinquent accounts to the OOF or an outside collection agency, as required. The audit concluded that there was a need for more coordination among departments and OOF, and that many of the problems could potentially be eliminated through centralizing the billing and collection processes.

To address these problems, the audit recommended that the City strongly consider the feasibility of centralizing the billing and collection processes under one department. In response to our audit, OOF convened a Centralization Working Group, composed of representatives of several departments, to develop a Task Order Solicitation to study the feasibility of centralizing collections. The Centralization Working Group hired Macias Consulting Group (Macias) to conduct the study.

After review by the Centralization Working Group, Macias issued its final report on December 21, 2009, which included an implementation plan for the City to consider, should it decide to proceed with the centralization proposed in the report.

### **CENTRALIZATION FEASIBILITY STUDY - OVERVIEW**

While Macias's report acknowledged that not all of the City's billing types can be centralized, it concluded that some centralization is feasible. The report proposed a three-phased approach to enhance the City's billing and accounts receivable management, as follows: (1) Greater centralization of report development and enhanced revenue metrics, (2) Greater centralization of accounts receivable management activities of high delinquency billings, and (3) Centralization of non-specialized billings which would only take place when a system needs to be replaced or when billing/collection performance declines among bill types. The report also included revenue and cost estimates for implementing each phase.

We interviewed Macias' staff to confirm our understanding of their report and to inquire about how they determined their revenue and costs estimates. We also interviewed key department managers to determine whether they agree with the report as it relates to their responsibilities, the feasibility of implementing the interfaces recommended, and the reasonableness of projected costs and revenues.

In general, we agree with the billing centralization concepts proposed by Macias. However, we believe that certain aspects of the plan could be implemented differently, resulting in potential reduced costs and enhanced revenues. For example, Macias recommended that the City contract with a vendor to develop a portal to accommodate the report development and enhanced performance metrics proposed in its report. However, based on discussions with ITA, the new FMS could probably achieve the same objective at a much lower cost. Also, we believe that the City could immediately increase its oversight over EMS and parking citation billings, instead of waiting until Phase II as suggested by the feasibility study.

We also noted that Macias' revenue estimate from centralization is overstated. For Phase I and Phase II, they estimated increased net revenues of \$274 million over a six year period. However, \$251 million of this amount is attributed to increased EMS billings, and almost all of this amount is due to outsourcing the EMS billing functions, and not from increased centralization. In addition, the \$251 million estimate is significantly higher than LAFD's estimate of \$10 million.

The remainder of this Section discusses our comments on Macias' feasibility study in more detail:

#### MACIAS' IMPLEMENTATION PLAN - PHASE I

**Instead of building a new separate reporting portal, the City needs to consider the cost effectiveness of utilizing the City's new Financial Management System to facilitate report development and enhanced revenue metrics needed to properly manage accounts receivable.**

Macias recommended that the City develop a central reporting portal that would allow the City to monitor and report all its receivables. Through interfaces with several departments' accounts receivable systems, revenue and collection information would be transferred into a central reporting portal. The portal would allow OOF, departments, and other City officials to access real-time receivable reports and performance management metrics that could be used to better monitor receivables. Macias proposed using an outside vendor to develop the portal. Macias suggested a separate central reporting portal because the new FMS scope for accounts receivable reporting is very high level and may not include the necessary reporting data elements that OOF needs to carry out its oversight functions.

We agree with Macias that expanding billing and collection reports and performance metrics would help enhance accounts receivable management. However, based on our discussions with ITA, it may be more cost effective to build any additional data elements into the new FMS instead of the City investing in a separate portal.

#### MACIAS' IMPLEMENTATION PLAN - PHASE II

Phase II of Macias' report involves having OOF take over the responsibility for billing and collection activities for 11 bill types currently being processed by the Fire Department, DOT and the LAPD. These 11 bill types traditionally have low collection rates and a high dollar value of billings, making them good candidates for centralization. The most significant of these invoices are parking citations and emergency medical services. Parking citations and EMS billings account for approximately \$109 million (82%) of the City's annual uncollectible amount.

#### Parking Citations

Parking citations are currently being billed and collected by an outside vendor. In FY 2008-09, parking citation revenue was approximately \$130 million. According to DOT, as of the first quarter of FY 2009-10, parking citation receivables were approximately \$210 million, with approximately \$91 million over two years old. Currently, the vendor is not required to refer delinquent accounts to OOF or any of the City's outside collection agencies.

Macias recommended that the Office of Finance and the City's collection agencies be more involved in the collection process of the delinquent accounts. This is a feasible proposal and should enhance revenue. OOF, DOT and the vendor are working out the necessary details for the vendor to start referring delinquent accounts. The contract does not require the vendor to make referrals to an outside collection agency, but the vendor has agreed to refer accounts that are four to five years old (per OOF the Statute of Limitations for collecting parking citations is five years). Since the contract with the parking citation vendor is expected to expire in 2011, OOF and DOT are also working to develop a new Request for Proposal for this contract.

#### EMS Billings

EMS billings are currently being performed in-house by the Fire Department. However, the Department is currently in the process of outsourcing the EMS billings to two outside vendors. In FY 2008-09, the Fire Department billed \$151 million and collected \$58 million in EMS revenues, a collection rate of approximately 38%. Outsourcing to private vendors who specialize in EMS billings should improve overall revenue. Macias supports outsourcing EMS billings and calls for OOF to be more involved in collection activities later in the process.

We agree that OOF should take a more active role in collecting billed amounts. In the case of EMS, the issue of whether the oversight of the billing vendors should be a shared responsibility between the OOF and the Fire Department or solely the responsibility of OOF needs to be resolved. Macias recommended, and the Fire Department concurred, that a shared responsibility is optimal. The OOF, however, believes that it should have sole responsibility for monitoring the vendors.

We believe that in order to avoid confusion and increase accountability, one department should be responsible for monitoring billing vendors. Since the Office of Finance's core business is revenue collections, it may be more efficient to place the responsibility for monitoring EMS billing vendors in that office. However, since the Fire Department provides EMS services, it should continue to be responsible for ensuring that sufficient information is provided to the billing vendor to ensure accurate claim processing. In addition, for the Office of Finance to successfully take over monitoring EMS vendors, it is imperative that the two departments initially work closely together and with the vendors, to work out details in order to ensure a smooth transition.

With respect to the system interfaces recommended for Phase II, Macias estimated the cost would be approximately \$5.5 million using an outside vendor. However, as discussed earlier, with respect to Phase I, we recommend that the City explore the cost effectiveness of having ITA build any necessary interfaces and system modifications as part of the FMS implementation.

#### PROJECTED INCREASED REVENUE

**\$251 million of Macias' \$274 million in projected increased net revenue is primarily based on outsourcing EMS billings. LAFD believes this estimate is too high. LAFD estimated the increased net revenues to be only \$10 million over six years.**

While we agree that outsourcing EMS billings and earlier involvement from the OOF to collect on delinquent accounts should result in increased net revenues, it may be too optimistic to expect that these actions would generate a 100% increase in EMS revenues. Because of the huge gap between the consultant's and the LAFD's revenue estimates, and given the current economy and the unknown effect of the newly enacted health care law, City officials should be cautious of relying on high revenue projections that may not materialize.

Macias estimated Phase I to result in net revenue of \$16 million over a six year period. This estimate is based on the assumption that, after Phase I implementation, the City could recover 10% of the current annual \$45.8 million Citywide unrecoverable billings per year (or \$4.6 million per year beginning in year 5). With enhanced reports and performance metrics that could be used for timely monitoring of receivable, this estimate appears reasonable.

Macias's report projected an additional \$274 million in net revenue over six years for implementing Phases I and II of its report. This includes \$251 million (or \$43 million per year) in increased revenue from outsourcing EMS billings. Macias' projection assumes the EMS collection rate would increase from the current 44% up to 85%. Macias' projection is based on its experience with other agencies.

We noted that the Fire Department has estimated an increase of only \$10 million in revenues from outsourcing EMS billings over the six year period. Fire's estimate is based on its current data as well as revenue and cost estimates provided by its potential vendors. Although Fire admits that its estimate may be too conservative, the Department believes the consultant's estimate is grossly overstated.

We also believe that the consultant's estimate is overstated, although a specific amount cannot be determined. It seems unlikely that the City could double its collections from outsourcing and closer monitoring. It may be possible that the demographics of the areas served by the consultant's comparison agencies may be vastly different than LA City's demographics. For example, patients in the comparison agencies may have a greater ability to pay, or a higher percentage of the patients may be covered by insurance.

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## SECTION II: PRIOR RECOMMENDATIONS NOT YET FULLY IMPLEMENTED

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The Citywide Guidelines were developed to establish some uniformity throughout the City and to help maximize Citywide collections. The 2007 audit found widespread non-compliance with the Guidelines. For example, departments were not submitting quarterly reports and were not referring delinquent accounts to the Board of Review in a timely manner. During this follow-up, although we noted some improvements, departments still do not consistently follow some key aspects of the Guidelines. Discussed below are prior recommendations that are not yet fully implemented.

**Prior Recommendation #7: For accounts returned as uncollectible by Allied Interstate Inc., (*Allied is the City's contracted outside collection agent*), the Office of Finance should refer the accounts directly to the Board of Review for write-off approval unless a specific department requests to make the referrals itself.**

Status – Not Implemented

Our initial audit found that departments were not diligent in referring old uncollected accounts to the Board of Review for write-off. We recommended that OOF refer accounts directly to the Board of Review when Allied (a former contractor who has now being replaced by Caine and Weiner) returned the accounts as uncollectible. This would help expedite the write-off process and help ensure that old uncollected accounts are eliminated from the City's accounts receivable records.

OOF disagrees with the recommendation. It stated that each department bears the responsibility to make a final determination on whether further action is warranted. OOF also stated that for accounts deemed uncollectible but still in statute, departments may want to pursue additional remedies or may have other business service with the debtor.

During our initial audit, we did not note any departments that pursued additional remedies on uncollected accounts returned by OOF. As indicated in our recommendation, we believe that OOF should refer the accounts directly to the Board of Review unless a specific department requests to make the referrals itself. Having each department make referrals to the Board of Review would further delay the process in writing off accounts of \$5,000 or more.

Note that this recommendation would be moot if all collections were centralized within one department.

**Prior Recommendation #9: Fire Department management should establish procedures to ensure that Paramedics/Emergency Technicians complete a 902M Form for each emergency medical transportation service provided.**

**Prior Recommendation #10: Fire Department management should establish control procedures to ensure that its billing section inputs all 902Ms it receives into the EMSS (Emergency Medical Services System).**

Status: Partially Implemented

Paramedics/Emergency Technicians (EMT) transport patients to hospitals and are required to complete a form (902M) to document the patient name, billing information (Medical, Medicare or private insurance) and other pertinent information. Currently, the 902Ms are processed in-house by the Fire Department's Emergency Medical Services Accounts Receivable Unit (Billing Unit). The billing unit receives 902Ms each day from the Districts. A staff in the billing unit counts the number of 902Ms received and distributes the forms to staff for entry into the EMSS to generate invoices.

The 2007 audit found that LAFD did not have an adequate process to ensure that for each medical transportation service provided, EMTs completed a 902M form and that they forwarded the form to the billing unit. In addition, there were no controls to ensure that each form that the billing unit receives is entered into the billing system. As a result, there is a potential for lost revenue.

LAFD is in the process of contracting with a vendor for a field data capture system, which it believes will allow 902M information to be captured and submitted for billing in a more efficient manner. LAFD will also be contracting with another vendor to perform Emergency Medical Services (EMS) billings. Vendors have been selected for the EMS billings and the field data capture system, and LAFD is working with the City Attorney to finalize contracts. It anticipates that the contract will be in place by August 2010.

Once the contracts are in place, LAFD should perform a review to ensure that all emergency medical transportation services provided result in the required billing information being captured and sent to the contractor for billing in a timely manner. However, until the contract is place, the Fire Department should, at least on a sample basis, ensure that all 902Ms that the billing unit receives are being entered into the billing system. For example, one alternative might be to select a sample of 902Ms forms received by the billing unit to determine whether they have been entered into the system properly.

In order to maximize revenue to the City, LAFD should meet with the vendors to identify controls that will be need to be in place to ensure that a billing results from each 902M form it submits to the vendor. The Department should consider incorporating the controls to achieve this objective into the final contract.

**Prior Recommendation #18: Fire Department management should establish controls to ensure that CUPA (Certified Unified Program Agency) billings are mailed in a timely manner.**

Status: Partially Implemented

LAFD issues permits to companies that have underground storage and hazardous materials. The fees related to these permits are referred to as Certified Unified Program Agency (CUPA) fees. LAFD bills approximately \$8 million in CUPA fees each year. Department procedures state that the billings should be sent out in July each year.

The 2007 audit noted that LAFD did not send out the 2006 billings until October 2006 due to system problems. In July 2007, in response to the audit, LAFD stated that it was working with its software vendor to correct the system problems. In February 2008, LAFD reported that its Accounting Division closely monitors the billings to ensure they are mailed in a timely manner.

During this follow-up, we reviewed the billings for the past three years and noted that, on average, they have been sent out over one month late. Although this represents an improvement over 2006, based on \$8 million in annual billings, the City loses approximately \$13,000 each month that the bills are sent out late. This assumes an interest rate of 2%. The amount could be significantly higher if interest rates were to rise.

LAFD stated that sending out the bills in July is probably not feasible. For example, bills cannot be sent out until LAFD receives information from the County of Los Angeles, which it usually does not receive until the first week in July. In addition, there have been staffing reductions in the CUPA unit. The Department plans to revise its written procedures to require the bills to be mailed by September 30<sup>th</sup> each year. In light of the current budget situation, we encourage the Department to explore ways to expedite the billing process so that bills can be mailed as soon as practical.

**Prior Recommendation #19: Fire, Bureau of Engineering, Bureau of Sanitation, Planning and Environmental Affairs management should ensure that they comply with the Citywide Billing and Collection Guidelines with respect to timeframes for sending out delinquent notices and referring accounts to an outside collection agency or the Office of Finance for further collection efforts. All collection efforts should be properly documented.**

Status – Partially implemented

The 2007 audit found that although departments generally billed accounts in a timely manner, they did not consistently follow up to collect the accounts once they became

delinquent. For example, the departments did not always send out delinquent notices or send them in a timely manner. In addition, departments did not always refer delinquent accounts to an outside collection agency or the OOF for further collection efforts.

During this follow-up, we noted that the Bureau of Engineering, the Bureau of Sanitation and Planning Department followed up on their delinquent accounts by sending out delinquent notices within the required timeframe of 45 days of delinquency. However, LAFD and the LAPD Commission (Commission) did not make timely referrals of delinquent accounts to OOF or an outside collection agency. LAFD did not refer six of 10 accounts we reviewed in a timely manner, and the Commission did not refer, in a timely manner, over half a million dollars in old delinquent false alarm accounts. The Commission accounts were not referred at least until December 2009, even though many were two to four years old.

Commission staff explained that the accounts were high dollar accounts for large businesses and that the accounts were held because they believed they would have a better chance than OOF of collecting the accounts. However, we noted that the Commission has collected only \$166,000 (29%) of the \$576,000, although it believes that additional payments could have been received directly by the Office of Finance (OOF cannot readily provide false alarm payment data). The Commission and the OOF should reconcile their records in order to ensure payments received are applied to correct accounts.

Due to the high dollar amount of the delinquent false alarm accounts, it is imperative that the two departments resolve whether the Commission should continue to pursue the accounts in-house, submit them to outside collection agencies or submit them to the Board of Review for write-off. Departments should not be permitted to decide when or whether to refer a delinquent account to the OOF or an outside collection agency. Delinquent accounts should be referred in accordance with established procedures (45 days of delinquency), unless the department can demonstrate that it is in the City's best interest to hold onto the account longer.

**Prior Recommendation #21: The Office of Finance should work with departments to develop criteria for determining appropriate penalties to assess.**

**Prior Recommendation #22: The Office of Finance should determine when interest should begin accruing and when the interest rate should be changed.**

Status –Not Implemented

According to the Guidelines, penalties and interest should be applied to all delinquent accounts and be set at a level that effectively deters late payments. The Guidelines also state that interest charges should be uniformly applied within the City on all delinquent accounts. The interest is not intended as a punitive measure but to reflect

the cost of borrowing money. Each year, the Office of Finance should calculate the appropriate interest rate for departments to use.

The 2007 audit found that the penalties and/or interest charged on delinquent accounts varied widely among departments. Even within the same department, the penalties were disparate. For example, Fire assessed a 50% penalty for brush clearance, high-rise inspection, and CUPA billings, but did not assess any penalties for ambulance and fire safety watch billings. In addition, none of the five visited departments during the initial audit charged interest. In addition, while the OOF calculated the interest rate each year, it did not disseminate this information to departments on a consistent basis.

Our follow-up review found that, with respect to the uniformity of interest accrual and penalties, nothing has changed since the original audit. The three departments we visited continue to charge the same penalties as before, and none of these departments apply interest on delinquent accounts to maximize revenues. Also, two of the three departments did not assess penalties on some delinquent accounts.

OOF has encouraged departments to apply interest, in accordance with the Guidelines. However, it stated that it does not have authority over departments, and as a result, it is difficult for OOF to enforce Citywide guidelines. While OOF does not have authority over departments, it has been charged with making recommendations to the Mayor's Office concerning Citywide revenue collections.

Strategically setting interest and penalties should result in additional revenues to the City. Therefore, we believe that the Mayor's Office should form a work group, which includes OOF and the City Administrative Officer, to review interest and penalties charged on various departmental billings. We recognize that changing some penalties will require changes to ordinances since several of the penalty amounts are specified in various ordinances.

**Prior Recommendation #24: The Office of Finance should ensure that the Citywide Billing and Collection Unit conducts regular reviews of departments to assess their compliance with the Guidelines.**

Status – Partially Implemented

Office of Finance's procedures require the Citywide Billing and Collection Unit to conduct site visits to departments to assess their compliance with the Guidelines. However, our initial audit found that since the end of 2002, OOF had completed reviews of only two departments (LAPD and LAFD).

OOF stated that it is in the process of completing reviews at four additional departments; Zoo, Planning, the Department of Building and Safety, and the Department of Transportation. In addition, OOF stated that it monitors departments'

compliance with the Guidelines through the quarterly Accounts Receivable reports. For example, the reports might identify departments that are not referring accounts or not writing-off accounts.

We understand that staffing resources are limited due to furloughs and early retirements. In light of dwindling resources, OOF may want to consider reducing the scope of its reviews so that it can increase the number of departments reviewed. It should be noted that reviews of several departments may not be necessary if some billing and collection processes become centralized within OOF.

**Prior Recommendation #27: The Office of Finance should provide departments with reports or electronic files that would allow the departments to reconcile their inventory of accounts to Office of Finance's records.**

**Prior Recommendation #28: The Office of Finance should consider requiring departments to manage accounts referred for collection.**

Status - Partially Implemented

The 2007 audit found that none of the departments we visited had processes in place to fully “manage” accounts once they had been referred to the OOF or an outside collection agency. Once a department referred an account, they generally did not take any action until the OOF reported the account as collected or that it was uncollectible. The audit also found that Office of Finance did not provide departments with regular reports (e.g., an inventory report) to help them manage their accounts.

Subsequent to our original audit, the OOF established a website that allows departments to view and monitor accounts they referred for collection. The website shows statuses of accounts and produces reports. OOF stated that it notified all departments about the website and trained their staff on how to use it.

Based on discussions with the three departments we visited, departments are not using the website to manage their accounts. For example:

- LAPD’s Alarm Section stated that it was never told that it could monitor delinquent accounts referred to Office of Finance/Citywide Collections by visiting the website. In addition, LAPD indicated that it was unable to generate reports showing amounts collected because OOF does not provide the Department information on all paid accounts.
- Sanitation indicated that reporting capabilities are limited. For example, monthly referral information is available for only 15 days. In addition, Sanitation stated that there are no reports available that list each account with OOF along with the current status of each account. The system only provides this type of information for a specific account queried.

- LAFD indicated that it was unable to generate reports necessary to complete a reconciliation of its records to OOF's records.

The departments indicated that they have expressed their concerns to OOF. When asked about departments concerns, OOF management stated that they believe that the system does provide useful tools but that departments are simply not taking advantage of them due to lack of familiarity or interest. OOF stated they have provided training to user departments, however, OOF agreed to explore the feasibility of enhancing the website to better meet the specific information needs of user departments.

This is another situation where centralization could enhance accountability. If one department is assigned the responsibility for Citywide billings and collections, better accountability would be established.

**Prior Recommendation #31: Fire Department management should pre-number the certificates of fitness and assign someone independent of the Fire Inspector and Cashier to control the inventory of certificates.**

Status - Not Implemented

The fire code requires individuals to have a valid certification of fitness if they recharge or service portable fire extinguishers and conduct any test or certify fire protection equipment or systems. To become certified, applicants for the program must satisfactorily complete a written and/or practical test administered by a Fire Inspector. The certification of fitness program generated revenue of \$210,000 and \$243,000 for FYs 2007-08 and 2008-09, respectively.

The 2007 audit found a lack of separation of duties over the certification of fitness process. A Fire Inspector accepted applications, collected payments from applicants, conducted the examination, determined whether the applicant was successful and issued the certificate. When the Fire Inspector received a payment, he sometimes held onto payments for several days before taking the monies to the cashier. Also, the certificates were not pre-numbered, making it difficult for the department to ensure that revenue had been collected for each certificate issued.

LAFD indicated that the Inspector that administers the certification of fitness test no longer collect payments for the certification of fitness program and that payment for the program has been redirected to the Accounting Services Section. However, LAFD still does not have a mechanism to monitor and ensure that revenue has been collected for each certificate issued. The Department indicated that it is developing an electronic database that will sequentially generate the certificates. The sequential numbers would then be used for tracking purposes to ensure that each certificate is properly accounted for.

**Prior Recommendation #33: The Office of Finance should require departments that receive a high volume of checks to work with the City Treasurer to explore the feasibility of installing a check verification system.**

Status – Partially Implemented

In addition to accepting cash and credit cards, most departments also accept personal checks. Although the Guidelines encourage the use of a check verification system for departments receiving a high volume of checks, the 2007 audit noted that none of the five departments visited during the audit utilizes a check verification system even though they all accepted a fair amount of checks. Since the City Treasurer would be responsible for installing check verification systems, the audit recommended that OOF require departments that receive a high volume of checks to work with the City Treasurer to explore the feasibility and cost effectiveness of installing a check verification system.

OOF indicated that it may no longer be cost effective to install check verification systems since most customers now use debit cards. We contacted the City Treasurer to inquire whether it had any data on the number of bad checks each department receives. The Treasurer's Office indicated that it does not track bad checks; however, it also believes that check verification systems may no longer be cost effective. OOF and the Treasurer's Office should, based on the number of bad checks each department receives, determine whether any department could benefit from such a system.

We agree that if the number of bad checks that departments receive has decreased, then it may no longer be cost effective to implement this recommendation. We will consider this recommendation to be partially implemented, until it can be shown that there are no departments that could benefit from implementing a check verification system.

**Prior Recommendation #34: The Office of Finance should develop a comprehensive database of delinquent debtors, which departments could refer to before accepting payments by check.**

Status – Partially Implemented

Since there is not a centralized accounts receivable and billing system, there is no Citywide cross-referencing of persons/organizations with outstanding debts in multiple City departments. When a particular department accepts a payment by check, it has no way of knowing whether the payor has an outstanding debt in another department.

The audit recommended establishing a Citywide database of delinquent debtors that could be accessed by departments before accepting a bad check, to reduce the number of delinquent accounts. Recognizing that it is probably cost-prohibitive for each

department to compile its own list of delinquent debtors, the recommendation was geared toward the OOF creating an electronic database of delinquent debtors from its records and the records of collection agencies. Departments could then use this database when accepting payments by check. This would help reduce Citywide accounts receivable.

Since the audit, the OOF posted on its website, 250 tax debtors with outstanding taxes due to the City which exceed \$100,000. Although this is a step in the right direction, these types of debtors are not likely to conduct other business with the City. OOF should develop a more comprehensive database that includes more delinquent debtors that could benefit departments.

#### Updated Status

Subsequent to our fieldwork, OOF completed actions that meet the intent of our recommendation. Specifically, the department began posting a listing of delinquent non-tax accounts of \$1,000 or more that have been assigned to an outside collection agency. The listing is available on the Intranet for departments to access and review, and the listing will be updated monthly. OOF also has been working with ITA and the Controller's Office to implement a Check Intercept Program as part of the Financial Management System project. The program is scheduled to begin implementation in July, 2011. The Check Intercept Program should result in increased collections. Under the program, if certain debtors are also vendors for the City, any amounts owed by these debtors would be automatically deducted from vendor payments made by the City.

*The following are the Accounts Receivable - related recommendations from our March 2007 Audit of the Fiscal Operations of LAPD.*

**Prior Recommendation #3.7: FOD Management should determine the level of old billings that is uncollectible and, if so, process these accounts for write-off.**

Status – Partially Implemented

LAPD's Fiscal Operations Division (FOD) handles billing amounts due from other governmental agencies under formal Memorandum of Agreements (MOA) as well as billings for extraditions performed by LAPD officers.

The initial audit found that FOD did not follow up to collect the accounts, did not refer delinquent accounts for collection, and did not identify which accounts were uncollectible. We obtained and reviewed FOD's billing information for MOAs and other billings related to other governmental agencies to determine whether old accounts were identified and forwarded for collection. We noted that FOD has identified \$123,264 in delinquent and uncollectible accounts related to MOA billings. However, FOD has not submitted any of the accounts for write-off approval. The agencies are as follows:

- State of California - \$58,373
- Immigration and Customs Enforcement - \$56,190
- Department of Justice - \$8,701

FOD indicated that it is not their practice to require write-off approval for MOA accounts. In addition, they do not refer these accounts to an outside collection agency or OOF for further collection efforts because they do not believe that referring governmental agency accounts is appropriate.

FOD should request formal write-off approval from the Board of Review to write-off uncollectible MOA accounts. In their request, FOD should indicate that the accounts have not been referred to an outside collection agency or OOF so that the Board of Review can evaluate the appropriateness of the non-referrals.

**Prior Recommendation #3.9: LAPD should develop clear and consistent procedures and criteria to determine the level of false alarm accounts receivable to accrue and the amount of allowance provided for uncollectible false alarm accounts.**

Status – Partially Implemented

This recommendation was addressed to the LAPD Commission which is responsible for false alarm billings and collections. The 2007 audit found that the Department lacked a consistent mechanism to systematically report its accounts receivable and related allowance for uncollectible accounts. The prior audit noted that the false alarm allowance amount included outstanding accounts over three years old, based on the City Attorney's opinion that all accounts over three years old are uncollectible. However, this assumes that all accounts under three years old would be collected, which may also not be reasonable.

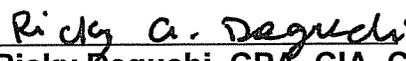
Although the new CryWolf system allows the Department to age and report its false alarm accounts receivable, the Department has still not finalized its criteria for determining the allowance amount. The Commission is currently working with the Office of Finance to establish a methodology for determining an appropriate allowance amount.

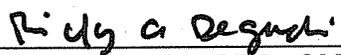
Subsequent Action

The Commission stated that it worked with the Office of Finance to establish a methodology for determining an appropriate allowance for doubtful accounts amount, which will be used in reporting the Accounts Receivable for the FY 2009-2010 financial statements.

Respectfully submitted,

  
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Farid Saffar, CPA  
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April 15, 2010

**ATTACHMENT I**  
**AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**  
**RECOMMENDATION IMPLEMENTATION STATUS**

FINDING #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
1.	At any point in time, the City does not know its total accounts receivable, broken down by age of account.	1. The Mayor should direct the Office of Finance to consider the feasibility of centralizing billing functions under the Office of Finance.	<p>OOF hired Macias Consulting Group to conduct a feasibility study of centralizing the City's billing and collection activities. Macias issued its final report on December 21, 2009.</p> <p>Macias concluded that some centralization is feasible. The report proposed a three-phased approach to enhance the City's billing and accounts receivable management. Macias also presented an implementation plan for the first two phases.</p> <p>Although we generally agree with the centralization concepts as envisioned by Macias, we have comments related to the implementation of Macias' recommendations.</p>	<p>Implemented</p> <p><b>In implementing centralized billings and collections, the OOF should:</b></p> <p>a) <b>Explore the cost effectiveness of having the Information Technology Agency build any necessary interfaces and system modifications as part of the Financial Management System implementation, as opposed to Macias' proposal to hire a contractor to develop a portal.</b></p> <p>b) <b>Work with the CAO, LAFD, and other stakeholders to determine responsibilities related to EMS billing and collection functions.</b></p>

**ATTACHMENT I**  
**AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**  
**RECOMMENDATION IMPLEMENTATION STATUS**

FINDING #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
		2.The Office of Finance should assess whether any departments should be exempt from submitting quarterly accounts receivable reports due to the department's minimal accounts receivable activity.	OOF created an application process for departments to request an exemption from submitting quarterly accounts receivable reports.  OOF identified 24 departments that are required to submit quarterly account receivable reports and 17 that are exempt from submitting reports.	Implemented
		3.The Office of Finance should monitor to ensure that all departments, unless exempt, submit the required quarterly accounts receivable reports.	OOF developed a process to ensure that all 24 required departments submit quarterly accounts receivable reports. OOF provided a listing showing that all required departments had submitted reports for the last two quarters. We reviewed reports submitted by five departments and did not note any exceptions.	Implemented
2.	The City's accounts receivable figures may be confusing because the City's gross receivable amount includes large amounts that should have been written-off.	4. Department management should ensure that write-off requests are submitted to the Board of Review in a timely manner.	We reviewed write-off requests submitted by the three departments we visited and noted that they consistently submitted write-off requests to the BOR in a timely manner.	Implemented
		5. The Fire Department should research the \$105,272 to determine if it can locate support documentation for the receivable. If no support can be found, Fire Department management	On December 17, 2008, the Board unanimously recommended that the City Council approve LAFD's request to write off the account. The Council approved the requested write-off (Council File 09-124).	Implemented

**ATTACHMENT I**  
**AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**  
**RECOMMENDATION IMPLEMENTATION STATUS**

FINDING #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
		should submit the account to the Board of Review for write-off approval.		
		6. The Office of Finance should establish controls to ensure uncollectible accounts returned by Allied are processed in a timely manner.	Our testwork disclosed that OOF has a process in place to ensure that accounts returned by the outside collection agencies are processed in a timely manner.	Implemented
		7. For accounts returned as uncollectible by Allied, the Office of Finance should refer the accounts directly to the Board of Review for write-off approval unless a specific department requests to make the referrals itself.	<p>OOF disagrees with the recommendation, stating that each department bears the responsibility to make a final determination on whether further action is warranted. OOF also stated that for accounts deemed uncollectible but still in statute, departments may choose to pursue additional remedies.</p> <p>During our initial audit, we noted that no department pursued additional remedies on uncollected accounts returned by OOF. This led to our recommendation that OOF refer the accounts directly to the Board of Review, unless a specific department requests to make the referrals itself. Having each department make referrals to the Board of Review further delays the process. It should be noted that this will become less of an issue if more collections are centralized within OOF.</p>	<p>Not Implemented</p> <p><b>For accounts of \$5,000 or more that are returned as uncollectible by a collection agency, OOF should refer accounts directly to the Board of Review for write-off approval, unless a specific department requests to make the referrals itself.</b></p>
3	Departments are not consistent in how they report their accounts receivable and the associated allowance for	8. The Office of Finance, in conjunction with the Controller's Office, should provide additional	OOF's updated Citywide Guidelines to maximize revenue collections include directives on how departments should report their accounts receivable and how to calculate an associated allowance for doubtful account amount.	Implemented

**ATTACHMENT I**  
**AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**  
**RECOMMENDATION IMPLEMENTATION STATUS**

FINDING #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
	doubtful accounts.	clarification and guidelines on how to report accounts receivable, including an associated allowance for doubtful account amount.		
4	Departments do not have effective processes in place to ensure that a billing occurs for every billable service provided.	9. Fire Department management should establish procedures to ensure that Paramedics/Emergency Technicians complete a 902M form for each emergency medical transportation service provided.	LAFD is in the process of contracting with a vendor for a field data capture system, which it believes will allow 902M information to be captured and submitted for billing in a more efficient manner.  LAFD will also be contracting with a vendor to perform Emergency Medical Services (EMS) billings. Vendors have been selected and LAFD is working with the City Attorney to finalize contracts, and anticipates they will be in place by August 2010.	Partially Implemented  <b>LAFD should:</b>  a) <b>meet with the contracted vendors to identify controls that will need to be in place to accurately capture billing information.</b>  b) <b>consider incorporating the identified controls to achieve this objective into the final contract.</b>  c) <b>once the contracts are in place, perform a review to ensure that all emergency medical transportation services provided will result in the required billing information being captured and sent to the contractor to</b>

**ATTACHMENT I**  
**AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**  
**RECOMMENDATION IMPLEMENTATION STATUS**

FINDING #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
				generate invoices in a timely manner.
		10. Fire Department management should establish control procedures to ensure that its billing section inputs all 902Ms it receives into the EMSS.	Currently, LAFD's receives 902Ms each day from the Fire Districts. Staff in the billing section counts the number of 902Ms received and distributes the forms to staff for entry into the department's billing system - EMSS.  However, there are no controls to ensure that each form received by the billing unit is entered into EMSS, which could result in potential lost revenue. As indicated above, LAFD is in the process of contracting out EMS billings. The use of electronic devices to capture billing information should help improve this process and meet the intent of this recommendation.	Partially Implemented  <b>Until the outsourcing of EMS billings has been completed, LAFD should, on a sample basis, ensure that all 902Ms that the billing unit receives are entered into the billing system.</b>
		11. Planning Department management should establish procedures that require high-level management approval to cancel invoices.	A formal request for canceling invoices was prepared and approved by the Deputy Director of Planning.	Implemented
		12. The Planning Department should bill the \$59,300 (\$39,700 plus \$19,600) identified above.	\$39,700 has been collected. The invoice of \$19,600 was canceled due to recognition of a credit from a previous payment.	Implemented
		13. Planning Department management should determine why the Labor Cost Report does not	The Department conducted a study to examine the reliability of its Labor Cost Reports and found that the reports do capture the labor costs accurately, though there were timing issues related to payroll corrections that may	Implemented

**ATTACHMENT I**  
**AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**  
**RECOMMENDATION IMPLEMENTATION STATUS**

FINDING #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
		capture all labor costs.	factor into some of the identified discrepancies. The Department will continue to monitor the process and strengthen internal communication to ensure that proper query criteria are used to generate the reports, and reports are run within the appropriate timeframes relative to the posting of payroll corrections in FMIS.	
		14. Bureau of Sanitation management should ensure that Inspectors follow procedures regarding issuing Notices of Violations to new businesses that need to apply for an Industrial Use permit.	On March 6, 2007, the Bureau of Sanitation, Industrial Waste Management Division re-trained its industrial waste inspectors on procedures to determine if a business is new by checking the Business Tax Registration Certificate online. Inspectors were also trained on the timely issuance of Notices of Violation to industrial users that are required to apply for an industrial Wastewater Permit but fail to do so. On January 30, 2008, the Bureau of Sanitation, Industrial Waste Management Division re-trained its industrial waste inspectors on how to identify when a new owner takes over a business (Change of Ownership). To ensure that Notices of Violation are issued in a timely manner, IWMD periodically runs a query of its Pretreatment Information Management System (database) to generate a report that identifies whether an industrial user was issued a Notice of Violation for failure to apply for an industrial wastewater permit.	Implemented
		15. Bureau of Sanitation management should develop reports to help ensure that new businesses apply for permits.	To ensure that Notices of Violation are issued in a timely manner, IWMD periodically runs a query of its Pretreatment Information Management System to generate a report that identifies whether an industrial user was issued a Notice of Violation for failure to apply for an industrial wastewater permit.	Implemented

**ATTACHMENT I**  
**AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**  
**RECOMMENDATION IMPLEMENTATION STATUS**

FINDING #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
5	The Bureau of Sanitation provided services to vendors with outstanding balances.	16. Bureau of Sanitation management should establish controls to ensure staff follows the department's policies and procedures of not providing services to vendors with unpaid invoices over 45 days overdue.	Procedures have been established at the Central Los Angeles Refuse Transfer Station to decline services to those customers having an overdue balance of over 31 days.	Implemented
6	There is the potential for departments to generate additional revenue of over \$1.1 million by charging for services for which they currently do not bill.	17. Fire Department, Environmental Affairs, and the Bureau of Engineering management should continue to pursue charging for additional services to ensure revenues are properly collected.	A Board of Fire Commissioners' Report to charge a fee for gas mitigation was approved by the City Council. The Department will continue to review all Fire Prevention Bureau reimbursable services.	Implemented
7	The Fire Department sent out Certified Unified Program Agency billings to customers late, resulting in lost potential interest earnings of \$115,000.	18. Fire Department management should establish controls to ensure that CUPA billings are mailed in a timely manner.	We reviewed the billings for the past three years and noted that on average, they have been sent out over one month late. Although this represents an improvement over 2006, based on \$8 million in annual billings, the City loses approximately \$13,000 each month that the bills are sent out late (assuming a 2% interest rate).	Partially Implemented  <b>LAFD should explore ways to expedite the billing process so that bills can be mailed as soon as practical.</b>
8	Departments did not actively pursue the collection of delinquent accounts	19. Fire, Bureau of Engineering, Bureau of Sanitation, Planning, and Environmental Affairs management should ensure	Three departments we visited followed up on delinquent accounts by sending out delinquent notices within required timeframes (45 days of delinquency per the Guidelines).  However, two departments (LAFD and LAPD) do not	Partially Implemented  <b>LAFD and the LAPD Commission should refer accounts within 45 days of</b>

**ATTACHMENT I**  
**AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**  
**RECOMMENDATION IMPLEMENTATION STATUS**

FINDING #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
		that they comply with the Citywide Billing and Collection Guidelines with respect to timeframes for sending out delinquent notices and referring accounts to an outside collection agency or the Office of Finance for further collection efforts. All collection efforts should be properly documented.	consistently refer delinquent accounts to an outside collection agency and OOF for further collection efforts in a timely manner.	<b>delinquency, unless they can demonstrate that it is in the City's best interest to hold onto the account longer.</b>
		20. Fire Department management should add language to its final invoices indicating that the debtor may be liable for additional collection fees if payment is not received within ten days.	Language was added to the final invoices on delinquent accounts, to provide notice to debtors that they may be liable for additional collection fees if payment is not received by the due date, except for ambulance accounts which are exempted through the administrative code.	Implemented
9	Penalties and interest charged on delinquent accounts vary widely among departments.	21. The Office of Finance should work with departments to develop criteria for determining appropriate penalties to assess.	Our follow-up review found that nothing has changed since the original audit. The three departments we visited continue to charge the same penalties, and none of these departments apply interest on delinquent accounts.	Not Implemented  <b>The Mayor's Office should form a work group, which includes the OOF and CAO, to review interest and penalties charged on various departmental billings.</b>

**ATTACHMENT I**  
**AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**  
**RECOMMENDATION IMPLEMENTATION STATUS**

FINDING #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
		22. The Office of Finance should determine when interest should begin accruing and when the interest rate should be changed.	See #21 above.	Not Implemented
10	Several departments do not have written policies and procedures for billings and collections.	23. The Office of Finance should ensure that all departments submit their policies and procedures for the billing and collection process in a timely manner.	OOF provided a listing of departments that submitted their policies and procedures. We sampled five departments and found that they have appropriately submitted their policies and procedures.	Implemented
11	The Office of Finance has not conducted any department site visits to assess compliance with the Guidelines.	24. The Office of Finance should ensure that the Citywide Billing and Collection Unit conducts regular reviews of departments to assess their compliance with the Guidelines.	OOF has only completed reviews of two departments (LAPD and LAFD) since we issued our report on June 11, 2007. The reviews were completed on June 30, 2007.  OOF staff indicated that they are in the process of completing reviews at four other departments.	Partially Implemented  <b>The OOF should consider reducing the scope of its departmental reviews so that it can increase the number of departments reviewed.</b>
12	The City could potentially realize savings by referring all delinquent accounts over \$1,000 directly to an outside collection agency.	25. The Office of Finance, on a pilot basis, should begin referring selected accounts over \$1,000 directly to Allied. The Office of Finance should then conduct a cost-benefit analysis to determine potential cost savings from referring selected accounts over \$1,000 directly to	OOF did not implement the recommendation as stated. However, it recommended to the Budget and Finance Committee to increase the threshold of delinquent accounts referred to the OOF from \$3,000 to \$5,000. All delinquent accounts below this threshold are now referred to contracted collection agencies. As this action meets the intent of the recommendation, we consider it as implemented.	Implemented

**ATTACHMENT I**  
**AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**  
**RECOMMENDATION IMPLEMENTATION STATUS**

FINDING #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
		Allied.		
13	The CCU may be able to improve the efficiency of its collection process by reducing the number of collection letters sent on each delinquent account.	26. The CCU, until recommendation #25 has been completed, should not send its series of collection notices, unless it has determined that the debtor has had a change of address.	CCU reduced the notices to two instead of the three that were previously being sent.	Implemented
14	Departments do not have processes in place to fully manage accounts once they have been referred to OOF	27. The Office of Finance should provide departments with reports or electronic files that would allow the departments to reconcile their inventory of accounts to Office of Finance's records.	<p>The OOF has set up a website that departments can access to view and monitor accounts referred for collection. The website shows statuses of accounts and can produce reports. OOF stated that its Director sent a letter to all General Managers to inform them of the website.</p> <p>However, discussions with the three departments we visited show that they are not using the website to manage their accounts. These departments stated that they often encounter problems with generating reports.</p> <p>The departments indicated that they have expressed their concerns to OOF. OOF needs to determine the feasibility of enhancing the website to meet the information needs of user departments.</p>	<p>Partially Implemented</p> <p><b>The OOF should determine the feasibility of enhancing the website to meet the information needs of user departments.</b></p>
		28. The Office of Finance should consider requiring departments to manage accounts referred for collection.	See #27 above.	Partially Implemented

**ATTACHMENT I**  
**AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**  
**RECOMMENDATION IMPLEMENTATION STATUS**

FINDING #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
		29. The Office of Finance should establish procedures to manage accounts referred to Allied.	OOF included procedures to manage accounts referred to Caine & Weiner (the vendor who replaced Allied) in a new contract. The agreement requires Caine & Weiner (C&W) to return any uncollected account held for a maximum of 365 days and for C&W to provide a method whereby OOF can monitor its accounts by accessing C&W's website. Based on a review of the website, OOF's new procedures, and a review of a sample of referred accounts, OOF's procedures to manage referred accounts appear reasonable.	Implemented
15	The Fire Department does not have an adequate separation of duties over the certification of fitness process.	30. Instruct the Fire Inspector not to collect payments from applicants for the certification of fitness program.	The Inspector who administers the certification of fitness test no longer collects payments. The Accounting Services Section now collects the payments.	Implemented
		31. Pre-number the certificates of fitness and assign someone independent of the Fire Inspector and cashier to control the inventory of certificates	LAFD still does not have a mechanism to monitor to ensure that revenue has been collected for each certificate issued. The Department indicated that it is developing an electronic database that will sequentially generate the certificates. The sequential numbers would then be used for tracking purposes to ensure that each certificate is properly accounted for.  See #30 above.	Not Implemented  <b>The Fire Department should sequentially number certificates of fitness and ensure that each certificate is properly accounted for.</b>
		32. Ensure that someone independent of the Fire Inspector, cashier, and the individual maintaining the inventory of certificates performs a periodic review to ensure that the department has received revenue for each certificate	The test of Certificate of Fitness is now included in the LAFD Internal Audit Unit audit plan. We obtained and reviewed a report of the completed audit.	Implemented

**ATTACHMENT I**  
**AUDIT OF CITYWIDE BILLING AND COLLECTION PRACTICES**  
**RECOMMENDATION IMPLEMENTATION STATUS**

FINDING #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
		issued.		
16	Departments do not utilize check verification systems.	33. The Office of Finance should require departments that receive a high volume of checks to work with the City Treasurer to explore the feasibility of installing a check verification system.	OOF indicated that it instructed departments during Revenue Management Committee (RMC) meetings and through the Citywide guidelines to follow up with the Treasurer concerning installing check verification systems. However, OOF did not identify departments that receive a high volume of checks, and none the three departments we visited as part of this follow-up review utilize a check verification system.	Partially Implemented  <b>The OOF should determine whether certain departments would benefit from a check verification system.</b>
17	Since there is not a centralized accounts receivable and billing system, there is no Citywide cross-referencing of persons/organizations with outstanding debts in multiple City departments.	34. The Office of Finance should develop a comprehensive database of delinquent debtors, which departments could refer to before accepting payments by check.	After the 2007 audit, the OOF posted on its website, 250 tax debtors with outstanding taxes due to the City which exceed \$100,000. This is a step in the right direction.  However, the intent of the recommendation is for OOF to develop a more comprehensive database of delinquent debtors that departments could access to verify a debtor's status before accepting payments by check.	Partially Implemented  <b>The OOF should continue with its plans to implement the Check Intercept Program.</b>
18	The Office of Finance does not monitor outside collection agencies to determine whether they are properly reporting collections.	35. Office of Finance should monitor outside collection agencies to determine whether they are properly reporting collections.	The Office of Finance performs a quarterly audit of C&W. The last audit was completed on December 22, 2009.	Implemented

**ATTACHMENT II**  
**FOLLOW-UP AUDIT OF FISCAL OPERATIONS AT LAPD**  
**RECOMMENDATION IMPLEMENTATION STATUS**

RECO. #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
1.10	There is insufficient emphasis in the LAPD placed on overall cost recovery, resulting in potential lost revenue opportunities.	Develop and implement performance measures for collection and cost recovery; and generate regular reports on collection and cost recovery based on these performance measures for the Police Commission to review.	LAPD uses the projected and actual false alarm revenues as its performance measures.	Implemented
1.11		Consider transferring the false alarm billing and collection enforcement functions from the Alarm Section to the FOD, or another entity (such as the proposed CFO), which can give these fiscal functions the attention and resources they require to be effective.	LAPD disagreed with the recommendation. According to the Department, instead of outsourcing, LAPD purchased a new billing system (Crywolf) to administer false alarm billings. The new billing system has allowed the department to better manage its receivables.  Based on the improvements noted in LAPD's false alarm collections, LAPD has met the intent of this recommendation.	Implemented
1.12		Alternatively, consider outsourcing the entire false alarm billing and collection enforcement processes to private service providers.	See 1.11 above.	Implemented
3.6	FOD has not followed established policies and procedures in a timely manner to enforce collection of accounts receivable, and to close out extensively delinquent and uncollectible billings.	Make a stronger effort to enforce collection on a timely basis if an account is considered collectible.	This recommendation relates to amounts due from other agencies. LAPD now routinely follows up with delinquent agencies. Additionally, LAPD provides reports to the Mayor's Office so the Mayor's Office can follow up on grant receivables under the Office's control.	Implemented

**ATTACHMENT II**  
**FOLLOW-UP AUDIT OF FISCAL OPERATIONS AT LAPD**  
**RECOMMENDATION IMPLEMENTATION STATUS**

RECO. #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
3.7		Determine the level of old billings that is uncollectible and, if so, process these accounts for write-off.	<p>We reviewed FOD's billings related to other governmental agencies to determine whether old accounts were identified and forwarded for collection.</p> <p>We noted that FOD has identified \$123,264 in delinquent and uncollectible accounts related to other agencies but has not submitted any of the accounts for collection or write-off.</p>	<p>Partially Implemented</p> <p><b>LAPD should request formal write-off approval from the Board of Review to write-off uncollectible Memorandum Of Agreement accounts. In their request, LAPD should indicate that the accounts have not been referred to an outside collection agency or OOF so that the Board of Review can evaluate the appropriateness of the non-referrals.</b></p>
3.8	The Alarm Section is not referring delinquent false alarm accounts in a timely fashion, resulting in a relatively low amount of delinquent accounts referred for collection.	Authorize additional work, either in the form of overtime or part-time staffing to complete the manual administrative work involved in transferring delinquent accounts to collection agencies.	LAPD has completed the transfer of the identified accounts to collection agencies.	Implemented

**ATTACHMENT II**  
**FOLLOW-UP AUDIT OF FISCAL OPERATIONS AT LAPD**  
**RECOMMENDATION IMPLEMENTATION STATUS**

RECO. #	FINDING	RECOMMENDATION	AUDITOR EVALUATION	STATUS
3.9	The LAPD lacks clear and consistent procedures and criteria to determine the level of false alarm accounts receivable to accrue and the amount of allowance provided for uncollectible false alarm accounts.	Develop clear and consistent procedures and criteria to determine the level of false alarm accounts receivable to accrue and the amount of allowance provided for uncollectible false alarm accounts.	LAPD is in the process of developing criteria for estimating the amount of allowance for doubtful accounts for false alarm billings.	Partially Implemented  <b>LAPD should develop criteria for estimating an amount of allowance for doubtful accounts for false alarm billings.</b>