



May 27, 2020

Performance Audit

City of Albuquerque – Office of Internal Audit
COLLECTION AND WRITE-OFF OF PROPERTY LIENS

Planning Department

Report No. 19-109



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**

PEFORMANCE AUDIT REPORT
COLLECTION AND WRITE-OFF OF PROPERTY LIENS
PLANNING DEPARTMENT
REPORT NO. 19-109

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COLLECTION AND WRITE-OFF OF PROPERTY LIENS

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The objective of the audit was to determine if lien receivables and write-offs for weed removal, litter clean-up and demolition filed by the Code Enforcement Department (CED) adhere to the requirements prescribed by the City of Albuquerque's (City) Credit, Collections and Accounts Receivable Policy as outlined in the City's Administration Instruction¹ (AI) 2-2.

Executive Summary

CED is a division of the Planning Department and is responsible for responding to violations, zoning, building, land use codes, and regulations, recording and releasing of property liens, reconciling the accounts receivable, and ensuring all property liens are pursued.

According to AI 2-2, each department should have written policies and procedures for collections. If a department does not have collections policies and procedures, then the AI will govern the department's policies. The audit found that CED practices surrounding lien collection and write-off do not always comply with the requirements outlined in AI 2-2 and CED lacks policies and procedures to supplement the guidelines outlined in AI 2-2. These two things have contributed to many liens and their associated fees going uncollected. Between fiscal year 2015 and fiscal year 2019, 5,422 liens totaling \$2.9 million had been filed by CED. Of which, only \$1.3 million (45 percent) had been recouped. CED should improve practices surrounding the tracking, recording, aging, reconciling, and writing-off of lien receivables and its collection of amounts due.

The Planning Department agrees with the findings and recommendations made. The response of the department is attached as an appendix. OIA will work with the department to follow up every six months on the status of the open recommendations made in this report.

Recommendations



The Code Enforcement Department should comply with the AI 2-2 requirements or develop written policies and procedures that comply with and address the requirements outlined in AI 2-2. At a minimum, these practices and/or policies and procedures should include that:

- Lien information, including collection efforts, payments received, lien releases, interest and fees charged are accurately and consistently tracked.
- The accrual basis of accounting is used to record lien receivables in the general ledger.
- Lien receivable aging reports be prepared monthly.
- Lien receivables, 120 days past due, be assessed for collectability and considered for write-off.
- Reconciliations between the aging report and general ledger are performed at least quarterly.

May 27, 2020

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Collection and Write-Off of Property Liens
Planning Department
Audit No. 19-109

INTRODUCTION

At the suggestion of both the Mayor and City Council, the Office of Internal Audit (OIA) conducted a performance audit of the Collection and Write-Off Property Liens process of the Planning Department's Code Enforcement Department (CED). This audit is part of the OIA fiscal year 2019 approved Audit Plan and is carryover from the fiscal 2018 audit plan. The audit objective was to determine if lien receivables and write-offs for weed removal, litter clean-up and demolition filed by CED adhere to the requirements prescribed by the City of Albuquerque's (City) Credit, Collections and Accounts Receivable Policy as outlined in the City's Administration Instruction¹ (AI) 2-2. Information pertaining to the audit objectives, scope, and methodology can be found in Appendix A.

CED is a division within the City's Planning Department. CED is responsible for:

- responding to violations, zoning, building, land use codes, and regulations.
- Recording and releasing of property liens.
- Reconciling the accounts receivable.
- Ensuring all property liens are pursued.

CED occasionally creates and files liens on vacant properties when they have been found to

¹ The City's Administrative Instructions are rules and regulations which have been written by various City departments and approved by the City's Chief Administrative Officer (CAO). The purpose of Administrative Instructions is to provide policies and procedures for activities which are not adequately controlled by other rules and regulations.

be in violation of the City's Anti-Weed and Litter Ordinance or the Uniform Housing Code Ordinance. In both cases, property owners are notified that their property is in violation and are given time to resolve the violation(s). If the violation is not corrected in the time given, a work order is created to have the work completed and a lien is filed against the property for the cost of the work performed. All liens are filed with the County Clerk's Office and result in a \$25.00 filing fee and a \$50.00 administration fee added to the lien. The City typically provides customers fifteen (15) to forty-five (45) days to remit payment. Additionally, a rate of 12% simple interest per year from the date the lien was recorded may be charged upon settlement. Imposing liens and actually collecting the costs from the responsible party are two different matters and the ability for municipalities to recover these costs often proves to be difficult given the nature of how liens originate. Between fiscal year 2015 and fiscal year 2019, CED had filed 5,422 liens, which totaled \$2.9 million. Of the \$2.9 million, \$1.3 million (45 percent) has been recouped by CED as of 2019.

FINDINGS

The following finding concerns areas that OIA believes could be improved by the implementation of the related recommendations.

1. CED LIEN COLLECTION AND WRITE-OFF PRACTICES DO NOT ALWAYS ADHERE WITH THE ADMINISTRATIVE INSTRUCTION 2-2 REQUIREMENTS.

According to AI 2-2, each business unit should have a written policy and procedures for collections. However, if a department does not have a collections policy and procedures, then the AI will govern the department's policies. CED practices surrounding lien collection and write-off do not always comply with the requirements outlined in the AI 2-2 and CED lacks policies and procedures to supplement the guidelines outlined in AI 2-2. These two things have contributed to many liens and their associated fees going uncollected. As previously stated, between fiscal year 2015 and fiscal year 2019, 5,422 liens totaling \$2.9 million had been filed by CED. Of which, only \$1.3 million (45 percent) has been recouped. Specially, CED lacks policies and procedures surrounding the tracking, recording, aging, reconciling, and writing-off of lien receivables and collecting of amounts due.

Tracking, recording, aging, reconciling, and writing off lien receivables. While CED maintains spreadsheets used to track liens and collections, key information in the spreadsheets is missing or is inconsistently tracked. The spreadsheets have fields such

as property address, owner name, contractor fees, processing fees, filing fees, lien amount, lien releases, amounts collected. However, information for all liens is not always entered for each field. For instance, pertinent lien information such as the payment due date and interest applied to late payments were not always tracked. Additionally, processing fees and filing fees were not applied to every lien.

According to CED personnel, lien receivables are not recorded in the general ledger and as a result, an aging of lien receivables is not performed and subsequently, amounts deemed uncollectible are not written off. A report that ages amounts outstanding (also known as an aging report), sorts receivables by the due date to estimate the uncollectible amount to be written off. AI 2-2 Section 8.1 requires that an aging report be prepared on a monthly basis and that outstanding amounts are classified as 31-60 days, 61-90 days, 91-120 days or over 120 days past due. Further, AI 2-2 section 12.7.1 states unpaid invoice for more than 90 days be added to allowance for doubtful accounts and charged against the department's revenue account. Further, it is a best practice to periodically write-off bad debts, that is, declaring amounts to be non-collectible and removing them from the accounts receivable account and reducing the allowance account.

Lien receivables are not recorded in the general ledger and doubtful accounts are not written off because CED recognizes revenues on a cash basis, rather than on an accrual basis, which is the basis upon which the City's Comprehensive Annual Financial Report (CAFR) is prepared. Cash basis accounting recognizes revenue and expenses only when money changes hands, while accrual accounting recognizes revenue when it is earned, and expenses when billed (but not paid). CED recognizes collections at the time they are recovered instead of applying them to the fiscal year the receivable was generated which is not consistent with accrual accounting.

Additionally, AI 2-2 Section 8.3 that departments are responsible for reconciling their accounts receivable to the PeopleSoft General Ledger monthly. Reconciling the aging report to the general ledger is a process of identifying, explaining and correcting the differences between amounts collected and written-off and outstanding. It is a best practice to perform account receivable reconciliations on a periodic basis (monthly/quarterly) to ensure that records are accurate and complete. This type of reconciliation provides additional assurance of receivable balance accuracy. However,

reconciliations are not currently being performed by CED because lien receivables are not recorded.

Collecting Amounts Due. CED does not initiate collections against liens within the timeframes established by the Administrative Instruction requirements. AI 2-2 states that if an invoice has not been paid within 30 days, department staff will contact the customer. Additionally, any contact with the customer regarding past due amounts must be documented in the PeopleSoft system.

Of the 109 lien collection accounts that existed as of 2019, all were over 30 days past due. However, contact with the customer was only documented as follows: 52 (28 percent) phone attempts to the debtors, 20 (11 percent) collection letters sent, and 36 (20 percent) demand letters sent.

Section 11.9.1 of AI 2-2, requires that for debts at least \$10,000, an assigned attorney write a formal collection letter to the debtor, if requested. As of 2019, there were 23 collections accounts with individual amounts owed that exceeded \$10,000. These 23 accounts resulted in a total of \$ 375,209 owed to the City. However, there is no evidence that CED requested its assigned attorney to write formal collection letters to each debtor. Further, Section 11.9.2 of AI2-2 requires for debts of at least \$25,000:

- a. Legal action shall be taken
- b. Contact Assistant City Attorney assigned to collections
- c. The City may sue other governments that owe it money.
- d. Settlement agreements, including terms and conditions of payment, should be drafted with the assistance of the Legal Department.

However, while there were two delinquent accounts with individual balances over \$25,000, as of 2019, no legal action against these accounts had been taken. These two accounts resulted in a total of \$56,230 owed to the City. Not initiating liens in a reasonable timeframe reduces the effectiveness of CED in the collection of amounts due the City and increases the likelihood the Planning Department will not recover the full debts.

According to Section 2.0 AI 2-2, the goals and responsibilities for account receivables include recovering accounts receivables promptly in order to improve cash flow to pay

for current operating expenditures and invest funds where most appropriate. To this point, an emphasis should be placed on collecting the debts owed to the City. By not using all collection methods available, CED is decreasing the possibility of collecting the outstanding debt.

Customers can request a liens waiver or a reduction in the total lien amount owed. If approved, a lien waiver form must be kept with the file explaining the reasons for the determination. However, because CED does not have policies and procedures to guide staff in reviewing and approving waiver requests, waiver requests can be inconsistently be granted or denied.

CED does not consistently document the basis for determining whether a lien waiver or discount is warranted or the review and approval of discounts or waivers given. Inspection of a sample of lien records found no consistent documentation of the reasons that some customers paid less than the total lien amount due or of how the amount paid was determined. Without written documentation, it is difficult to determine whether lien waivers and discounts were granted consistently or were properly reviewed and approved by authorized departmental personnel. Written policies and procedures would encourage consistency and establish protocols for granting requests for waivers and discounts. Requiring documentation of rationales and calculations of reduced lien amounts could also help reduce the possible perception of opportunities for favoritism.

Section 11.3 of AI 2-2 states, each business unit should have a written policy and procedures for collections. The roles and responsibilities of collections for each department should be clearly defined. All departments are responsible for collecting on amounts invoiced and identifying staff assigned with these duties. Written policies and procedures are:

- A formal communication of management's commitment to protecting the City's assets and providing instruction for carrying out management's directives.
- Essential to ensure that staff can effectively and consistently perform duties in adherence with documented guidelines.

Establishing an effective control environment sets the tone of the organization and helps ensure that employees know the organization's procedures, including properly recording

accounts receivable in the system, initiating collection efforts timely, determining how and when write-off should be processed, and reconciling an aging of account receivables to the general ledger.

RECOMMENDATION:

1. The Planning Department' Code Enforcement Department should comply with the Administrative Instruction requirements regarding Credit, Collections & Accounts Receivable (AI 2-2) or develop written policies and procedures that comply with and address the requirements outlined in AI 2-2. At a minimum, these practices and/or policies and procedures should include that:
 - a. Lien information, including collection efforts, lien releases, interest and fees charged, and payments received, are accurately and consistently tracked.
 - b. The accrual basis of accounting is used to record lien receivables in the general ledger.
 - c. Aging reports be prepared monthly to classify accounts as 31-60 days, 61-90 days, 91-10 days and 120 days past due.
 - d. Lien receivables, 120 days past due, be assessed for collectability and considered for write-off.
 - e. Reconciliations between the aging report and general ledger are performed at least quarterly.

CONCLUSION

By developing written policies and procedures that comply with and address the requirements outlined in the City's Administration Instruction regarding Credit, Collections and Accounts Receivable Policies, the Planning Department will improve its ability to track, record, and collect lien receivables. The Department's response to the recommendations made are included in the APPENDIX B of this report.

We greatly appreciate the assistance of the Planning Department that participated throughout this audit, as well as the involvement and cooperation of Code Enforcement Department.

Connie Barros-Montoya, Staff Auditor
Office of Internal Audit

REVIEWED:

APPROVED:

Nicole Kelley, Manager
Office of Internal Audit

Ken Bramlett, Interim City Auditor,
Office of Inspector General

APPROVED FOR PUBLICATION:

Edmund E. Perea, Chairperson
Accountability in
Government Oversight Committee

OBJECTIVE

The audit objectives were to determine:

1. The objective of this audit is to determine if the lien receivables and write-offs for weed removal, litter clean-up and demolition filed by the CED Department follow Administration Instruction (AI) 2-2. Specifically:
 - a. Are external billing and receivable systems used to record or track lien receivables approved by the Department of Finance and Administrative Services in accordance with AI 2-2 Section 6.3.1?
 - b. Is the department preparing a monthly reconciliation and aging report, and submitting final notices or invoices in accordance with AI 2-2 Section 8.0?
 - c. Does the department have written policies and procedures to ensure timely follow-up and collection in accordance with AI 2-2 Sections 11.3 (departmental responsibilities), 11.4.1 (procedures), 11.4.2 (phone calls), 11.4.7 (letters), and 11.4.8 (accounts over 61 days-default management)?
 - d. Is the department obtaining legal assistance in accordance with AI 2-2 Section 11.9?
 - e. Is the department reconciling to the general ledger, customer's accounts and receipts in accordance with AI 2-2 Section 15.5?
 - f. Are final write-offs, if any, performed in accordance with City Council AI Section 17.5?

The above objective will be assessed against criteria derived from City Policies, Procedures, AI 2-2, technically developed standards and best practices, as applicable.

SCOPE AND LIMITATIONS

Our audit did not include an examination of all functions and activities related to Collection and Write-Off Property Liens. Our scope was limited to the objective above for the audit period May 1, 2015 through October 31, 2019. This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork on December 9, 2019 and does not reflect events or accounting entries after that date.

CED management is responsible for establishing and maintaining effective internal control and complying with laws, regulations, contracts, and agreements. In the context of our audit, we considered CED internal controls to be significant to our objective in internal controls and based upon audit work performed we noted limited internal controls to the collection spreadsheet. The term significant can be defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. In the performance audit requirements, the term significant is comparable to the term material as used in the context of financial statement engagements.

In performance audits, a deficiency in internal control exists when the design, implementation, or operation of a control does not allow management or personnel to achieve control objectives and address related risks. A deficiency in design exists when a necessary control is missing or is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in implementation exists when a control is properly designed but not implemented correctly in the internal control system. A deficiency in operating effectiveness exists when a properly designed control does not operate as designed or the person performing the control does not have the necessary competence or authority to perform the control effectively.

Our consideration of internal control was for the limited purpose described in our audit objectives and was not designed to identify all deficiencies in internal control. Therefore, unidentified deficiencies may exist.

As part of the performance audit, we tested CED's compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which were significant within the context of the objectives of our audit. However, opining on compliance with those

provisions was not an objective of our performance audit and accordingly, we do not express an opinion.

Is the boundary of the audit directly tied to the audit objectives? The scope defines: (GAS 6.09)

- Subject matter that the auditor will assess and report on: OIA will report on the above objective. The audit will address the collection and write off Property Liens.
- Necessary documents or records: Tracking spreadsheets maintained by CED Department, lien documents, financial records.
- Program, process, contract, or operation being audited: Property Liens
- Time being audited: FY 2015 – FY 2019
- Locations that will be audited: CED Department/Code Enforcement (Albuquerque)

We conducted this performance audit in accordance with generally accepted government auditing standards for performance audits, as prescribed in *Government Auditing Standards*, 2018 revision, issued by the Controller General of the United States. 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.

The Office of Internal Audit was created as an independent office of City government under the City's Accountability in Government Ordinance Article 10, Section 2-10-4. The Office of Internal Audit is independent and meets the independence requirements for internal audit organizations per the *Government Auditing Standards*.

METHODOLOGY

Methodology used to accomplish the audit objective included but are not limited to the following:

- Gathered and reviewed the legislative documents pertaining to the history of Collection & Write-Off of Property Liens.

- Interviewed key Planning Department staff and documented how the Collection & Write-off of Property Liens are collected.
- Selected and tested the Collection & Write-Off of Property Liens receivables and they are being applied and tracked to balances to the spreadsheet.
- Assessed whether the Collection & Write-Off of Property Liens are being collected in accordance with AI 2-2.
- Evaluated the results of the testing to determine and document if sufficient, appropriate evidence has been obtained to address audit objectives and reduce audit risk to an acceptable level and that evidence is sufficient and appropriate to support findings and conclusion.
- Summarized all the findings and provided the auditee with recommendations that will help to strengthen internal control, cost savings, and operating efficiency and effectiveness; and
- Performed other methodologies as needed.

APPENDIX B

DEPARTMENT RESPONSE

For each recommendation, the responsible agency should indicate in the column labeled *Agency Response* whether it concurs, does not concur, or partially concurs and provide a brief explanation. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

Recommendation	Responsible Agency	Agency Response	OIA Use Only Status Determination*
1. The Planning Department should develop written policies and procedures that comply with and address the requirements outlined in the City's Administration Instructions regarding Credit, Collections and Accounts Receivable Policies. At a minimum, the policies and procedures should require that: <ul style="list-style-type: none"> a. Lien information, including collection efforts, lien releases, interest and fees charged, and payments received, are accurately and consistently tracked. 	The Planning Department	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur The Planning Department and the Department of Technology & Innovation (DTI) collaborated for months to design and implement a process to integrate lien information from Posse (the Planning Department computer system) to Peoplesoft Accounts Receivable. This has now been designed, developed and tested and is being utilized to address the issues found in the audit. The Planning Department is finalizing the written policies and procedures	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

<ul style="list-style-type: none"> b. The accrual basis of accounting is used to record lien receivables in the general ledger. c. Aging reports be prepared monthly to classify accounts as 31-60 days, 61-90 days, 91-10 days and 120 days past due. d. Lien receivables 120 days past due, be assessed for collectability and considered for write-off. e. Reconciliations between the aging report and general ledger are performed at least quarterly. 		<p>with an expected date of completion of June 30, 2020.</p>	
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