OFFICE OF THE CONTROLLER

CITY OF PHILADELPHIA PENNSYLVANIA

REVIEW OF DELINQUENT WATER AND SEWER ACCOUNTS

FEBRUARY 2008

Alan Butkovitz
City Controller

CITY OF PHILADELPHIA

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ALAN BUTKOVITZ
City Controller

ALBERT F. SCAPEROTTO
Deputy City Controller

February 19, 2008

Mr. Keith J. Richardson,
Revenue Commissioner
Department of Revenue
Municipal Services Building, 6th Floor
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679

Concerned about recent and significant increases in water and sewer rates, the Controller's Office reviewed some of the larger delinquent customer accounts to ascertain if collection efforts were adequate, uniformly applied, and effective. The review was conducted pursuant to Section 6-400(d) of the Home Rule Charter. The results of our work are provided in the attached report. The conditions noted occurred under the administration of the previous Revenue Commissioner.

We discussed our findings and recommendations with Revenue Department officials at an exit conference and have included your written response to our comments as part of the report. Our recommendations have been numbered to facilitate tracking and follow-up in subsequent years. We believe that our recommendations, if implemented by management, would improve the effectiveness of the city's collection of delinquent water and sewer accounts.

Very truly yours,

ALAN BUTKOVITZ
City Controller

cc: Honorable Michael Nutter, Mayor
Honorable Anna C. Verna, President
and Honorable Members of City Council
Members of the Mayor's Cabinet
Marleen Duley, Deputy Revenue Commissioner

Review of Delinquent Water and Sewer Accounts

Executive Summary

Why The Controller's Office Conducted the Examination

Due to recent and significant increases in water and sewer rates and anticipated additional rate increases, which can impose an undue hardship on both residential and commercial customers, we conducted this review of delinquent customer accounts to ascertain if collection efforts were adequately and uniformly applied, or could be improved to more effectively collect delinquent water and sewer charges.

What The Controller's Office Found

A 30-year old customer billing information system, used primarily for generating monthly water bills, as well as certain collection practices allowed situations to occur where unpaid customer balances continued to accumulate as the accounts aged. There was also inconsistent application of the city's right to shut off water service for delinquent accounts. We found:

- Accounts receivable at our test date (May 31, 2007) amounted to $161 million. Seventy-three percent of that balance or $117 million, related to 62,000 customer accounts that had been delinquent for more than three monthly billing cycles.
- Accounts delinquent for 15 years before water service was terminated.
- The City Solicitor's Office directed the Water Revenue Bureau to execute a full abatement of $276,000 of water and sewer charges for one customer with no supporting explanation.

We found other problems including:

- The Water Revenue Bureau was unable to provide any formal written enforcement practices and procedures related to delinquent federal and state account balances of $1.3 million and $562,000, respectively.
- One customer's account grew to an outstanding balance of $1 million over nine billing periods.
- Proceeds from the sale of delinquent customers' properties at sheriff sale not remitted timely by the Sheriff's Office. The Water Revenue Bureau did not provide an accounting of the funds collected and held by the Sheriff's Office.

Our review also disclosed possible fraud by the Water Revenue Bureau's Director of Technical Operations that went undetected for nine years.

What The Controller's Office Recommends

The Controller's Office has developed a number of recommendations to address these findings. These recommendations can be found in the body of the report.

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BACKGROUND INFORMATION

The Philadelphia Water Department, which began providing water service in 1801, supplies water to the City of Philadelphia, to a portion of Bucks County, and provides wastewater treatment services to the city, and to ten municipalities and authorities located in Montgomery, Delaware, and Bucks counties. In order to ensure that the Philadelphia Water Department has the resources necessary to provide these services to the region, the city created the Water Revenue Bureau in 1959 to handle billing operations.

The Water Revenue Bureau is a division of the city's Revenue Department. The core services of the Water Revenue Bureau include meter reading, accurately billing and collecting water/sewer charges and fees from customers of the Philadelphia Water Department, managing payment options, and providing customer service.

PURPOSE OF REVIEW

Over the past two and a half years, the Philadelphia Water Department has raised water and sewer rates four times – see Exhibit I – for an overall increase of nearly 28%. Furthermore, the Philadelphia Water Department has indicated that it anticipates an additional rate increase may be required in the city's next fiscal year.

Because significant rate increases can impose an undue hardship on both residential and commercial customers, we conducted a review of delinquent accounts to ascertain if collection efforts on past due accounts were adequate and uniformly applied, or could be improved to more effectively collect delinquent water and sewer charges.

METHODOLOGY

To accomplish our review, we obtained the city's water and sewer customer accounts receivable file as of May 31, 2007. We then performed an aging of the customer accounts, excluding those related city departments and agencies. Our review was conducted between June 15, 2007 and November 6, 2007.

The Water Revenue Bureau considers customers to be delinquent if they have not paid all water service charges by the due date on their monthly bill. For purposes of our analysis, we were conservative and considered any account with an outstanding balance that was more than three months old to be a delinquent account. Our analysis of the accounts disclosed 62,000 customers owed a total of $117 million on accounts that had been delinquent for more than three billing cycles. This represents 73 % of the May 31st accounts receivable balance of $161 million. From the above population, we selected for review delinquent accounts with large balances due. These include a sample of ten individual accounts –identified as accounts A through J - in Exhibit II, properties owned by the federal and state governments (Exhibits V and VI), and a quasi-governmental agency.

TEST OF TEN SAMPLE ACCOUNTS

Failure to Shut Off Delinquent Accounts Timely

During the period of our review, the Water Revenue Bureau's collection efforts were hampered by its 30-year old customer billing information system that did not provide effective case management for delinquent accounts. Management personnel informed us that this system did not allow for easy tracking of account history, nor for automatic referrals to the Law Department of past due accounts. In our test sample of ten significant delinquent accounts (Exhibit II), we found four accounts have been delinquent for 15 years. These accounts – C, F, G and I – owe a combined total of $327,000.

According to the Water Revenue Bureau, water service for accounts C, F and G has been shut off. We found account C's service was finally terminated 15 years and 7 months after the account was first determined to be delinquent, account F had been delinquent for 14 years before shut off, and account G was delinquent for 11 years.

The other account – I – had its water shut off while we were performing this review. We also found that this account, which owes $145,000 for unpaid water service, owes the city an additional $150,000 for unpaid real estate taxes. The combined amount due, $295,000, far exceeds the property's market value of $63,000 as estimated by the Board of Revision of Taxes.

We found another account – H – has been delinquent for four years and owes a balance of $170,000. Despite records indicating that water service for this property had been shut-off two years after the account became delinquent, and that the account has been referred to the city's Law Department for collection, we found the Water Revenue Bureau continues to send bills to the account. We visited the property for this account, observed that it appeared vacant, and noticed a recent water bill included with delivered but unopened mail.

One of the most effective tools available for collection of delinquent water and sewer accounts is the city's ability to shut off water service. The Water Revenue Bureau's shut-off policy for residential customers allows service to be terminated if an account is delinquent for two or more monthly billing cycles and has an outstanding balance of $75. For commercial accounts, water service can be terminated when the account is delinquent for two cycles without regard to the amount owed. Because their billing system overwrites account data when new information is entered, the Water Revenue Bureau was unable to explain why water service for the above accounts was not terminated according to their shut-off policies. We believe that allowing customers with large unpaid balances to continue receiving water for many years before water service is terminated is not an effective collection effort.

Recommendation

We recommend that management reevaluate the entire collection process, and in connection with the implementation of a new customer billing system known as *basis2*, develop procedures to track complete water usage and payment history for all customer accounts, and to automatically start collection efforts when accounts become delinquent. [403607.01] We were informed by management that the new *basis2* system has the capability for improved case management, and is able to provide more effective enforcement.

Payment Agreements

The Water Revenue Bureau has a process whereby customers with delinquent accounts may voluntarily enter into payment agreements to avoid shut-off of their water service. We asked Water Revenue Bureau management if any of our ten sample accounts had entered into payments agreements on the large balances owed on their accounts. Management responded that none of the ten sample accounts had payment agreements.

When we reviewed these accounts, we found that one customer – account D on Exhibit II – had entered into a payment agreement, made an initial payment by credit card of $20,000, and then defaulted on the agreement. The party responsible for this account, which owed $367,000 on May 31st, is a hospital that serves the North Philadelphia community. This situation indicates that the hospital may have major cash flow problems. This customer, which is still receiving water, has a current outstanding balance of nearly $400,000.

Recommendation

We recommend that Water Revenue Bureau management become proactive and develop a long term plan with the customer for paying its delinquent water and sewer bill. [403607.02] Subsequent to our review, we were informed by management that this account has been referred to the Law Department, and that the Law Department's agent is developing a new payment plan for this account.

Abatement Concerns

In our testing of delinquent accounts, we found account E had its entire outstanding balance of $64,000 eliminated. Our inquiry disclosed that the Water Revenue Bureau adjusted this account based on correspondence from the City Solicitor's Office directing a full abatement of the customer's water and sewer charges, penalties, and liens on this account and on 16 other accounts.

In total, the City Solicitor's Office abated $276,000 of amounts due on properties owned by this customer. Copies of the correspondence from the City Solicitor's Office, which were the basis for the Water Revenue Bureau's adjustment, are presented as Exhibits III and IV. This correspondence directed the Water Revenue Bureau to execute a full abatement of the customer's unpaid balances with no explanation or reasoning supporting this decision.

Recommendation

The city's water and sewer system is a public utility. When costs for services are not collected, these costs are borne by other customers. Granting a 100% abatement of a customer's water and sewer charges, without providing a full explanation for this action lacks transparency. Accordingly, we recommend that in the future the Water Revenue Bureau request that the City Solicitor's Office provide an explanation for all full abatements. [403607.03]

OTHER CONDITIONS NOTED

Special Treatment for Delinquent Federal and State Accounts

Both the federal and state governments own various facilities that are located throughout the city. Our review of the water and sewer accounts associated with these properties disclosed significant unpaid water and sewer bills.

We found twenty-five accounts, associated with properties listed in Exhibit V, that were identified on the city's water and sewer records as federally owned, owe a total of $1.3 million for unpaid water and sewer service. In addition, as scheduled in Exhibit VI, we found that the Commonwealth of Pennsylvania owes $562,000 on thirty-four accounts. Some of the balances due on these accounts are 10 years or more in arrears.

In our review of these accounts we noticed there was never any effort to shut off water service for delinquent federal and state accounts. When we inquired about the special treatment given to these accounts, we were informed that it has been a past practice of the Water Revenue Bureau to avoid shutting off water service for government owned properties.

While there is no formal regulation, nor written policy, that directs the Water Revenue Bureau to avoid shutting off water service for government owned properties, we were told that this practice has been in effect for more than thirty years.

Included in the twenty-five federal accounts, mentioned above, are two accounts where the responsible party for the accounts is a contractor that provides utility services to the former naval shipyard which is now operating as the Philadelphia Naval Business Center. We believe that these accounts are improperly classified as federal government accounts. The outstanding water and sewer bills applicable to these accounts total $749,000.

Recommendation

We do not believe that the Water Revenue Bureau should create its own informal policies regarding delinquent federal and state accounts. Such practices are arbitrary and blatantly unfair to all water and sewer customers.

We recommend that the Water Revenue Bureau establish collection enforcement policies pertaining to federal and state amounts based on advice from the City's Law Department. [403607.04] We were informed by management that it has referred this matter to the City Solicitor for assistance.

We also recommend that the Water Revenue Bureau reevaluate its classification of the Philadelphia Naval Business Center's contractor as a federal government account and immediately begin appropriate collection efforts. [403607.05]

Monitoring Accounts for Reasonableness

Our analysis disclosed one account, owned by the Philadelphia Housing Authority (PHA), where the balance due grew at a rapid pace over a nine month period. This account now has a delinquent balance of $1.2 million. We were told by Water Revenue Bureau management that PHA hired a contractor to perform demolition work at a housing site, and that the contractor, as part of an effort to control dust, sprayed the demolition site with water from a metered water supply. The Water Revenue Bureau has billed PHA for using 6.5 million gallons of water at the site.

PHA disputes the charge and has referred this issue to its attorneys for resolution with the city.

Recommendation

Before individual accounts grow into a large delinquent balance, we recommend the Water Revenue Bureau timely review accounts for unexpected usage, investigate the nature of usage, and take corrective action, if needed, to resolve billing issues. [403607.06] We were informed by management that it has referred the PHA account to the Law Department.

Sheriff Sales

Another option available to the city for the collection of delinquent water and sewer accounts is to sell the property at a sheriff's sale. Based on our review, we found that the Sheriff's Office does not timely remit sale proceeds that should be applied to delinquent water and sewer accounts.

An effective internal control system over revenue collections from sheriff's sales would provide for the maintenance of a ledger of the revenues generated, remitted, and owed by the Sheriff's Office. We asked Water Revenue Bureau management to provide a schedule of receivable amounts due from the Sheriff's Office that identifies the customer accounts, the dollar amounts due, and the age of these receivables. Water Revenue Bureau management responded, in part, "there are outstanding monies owed that have not been remitted by the Sheriff." The Water Revenue Bureau did not provide us with a schedule of monies collected and still held by the Sheriff's Office.

Recommendation

Because the process of selling properties and collecting revenues from sheriff's sales involves multiple city departments – the City Solicitor's Office, the Sheriff's Office, the Revenue Department and its Water Revenue Bureau – cooperation between these departments is essential for maintaining accurate financial reporting. We suggest that the Water Revenue Bureau develop an effective process to track and monitor the status of delinquent accounts sent to the Sheriff for sale. [403607.07]

Employee Misconduct

During our performance of this review we received an anonymous tip that a member of the Water Revenue Bureau's management team had committed fraud by devising a scheme for underpaying his personal water bill.

This alleged fraud involved the employee/customer submitting erroneous water meter readings. Under the Automatic Meter Reading (AMR) Program, which began in 1997, there should be no opportunity for a customer to submit false meter readings. However, in this situation the employee/customer delayed for 9 years the installation of an electronic meter reading device on his meter and he therefore would phone in his water meter readings. Water Revenue Bureau personnel informed us that these call-in readings were understated by approximately $1,900.

We are concerned by four aspects of this situation:

- The individual who appears to have committed this possible fraud was employed by the Water Revenue Bureau as its Director of Technical Operations, which oversees the department's meter reading unit,

- This employee was able to avoid having an AMR device installed on his home water meter for over nine years, and he was able to circumvent the billing system by submitting erroneous meter readings during that period,

- When city management became aware of this situation in May of 2007, the employee was kept on the city's payroll until he retired in August. We were informed by management that this was done on the advice of the City's Inspector General.

- As of our last date of field work, there had been no effort to collect the unbilled water charges due from the employee.

Recommendation

We believe management has to be more vigilant in guarding against potential fraud opportunities. We recommend that the Water Revenue Bureau periodically review the personal accounts of its employees for any unusual situations, such as failure to have an AMR device installed, any unexplained changes in payment patterns for the employees' accounts, or any other unusual matters that come to its attention. [403607.08] We further recommend that management consult with the Law Department regarding the appropriate means to recover the funds owed by the former Director of Technical Operations. [403607.09]

Water and Sewer Rate Changes

Phase	Effective Date	Rate of Increase
1st	February 1, 2005	12.8%
2nd	August 1, 2005	1.9%
3rd	July 1, 2006	6.7%
4th	July 1, 2007	4.2%

Rate increases add to a total of 25.6%, however, the actual increase was 28% due to compounding.

EXHIBIT II

Test of Delinquent Water and Sewer Accounts

Account	Property Address	Account Balance Due as of May 31, 2007	Per Water Revenue Bureau: Date Account Determined To Be Delinquent	Per Water Revenue Bureau: Date Water Service Shut off	Comments
A	7810 Algon Avenue	$182,758	August 2006	–	Balance disputed, customer's appeal denied
B	5245 Bleigh Street	178,024	Not Provided	–	Balance in dispute
C	1631 Diamond Street	25,950	March 1992	May 1, 2007	Account delinquent for 15 years Water shut-off and restored on May 1, 2007, and shut off again on October 26, 2007
D	1600 W. Girard Avenue	366,514	December 2003	–	Account delinquent for 4 years
E	2432 W. Lehigh Avenue	63,764	August 2007	–	Balance abated by City Solicitor on July 13, 2007
F	2950 W. Lehigh Avenue	135,586	1992	September 7, 2006	Account delinquent for 15 years
G	6141 Upland Street	20,004	May 1992	July 9, 2003	Account delinquent for 15 years
H	4528 Worth Street	169,998	August 2003	November 3, 2005	Account delinquent for 4 years
I	3216 N. 16th Street	145,711	March 1992	July 18, 2007	Account delinquent for 15 years
J	3022 N. 20th Street	38,477	November 2006	August 22, 2007	Account delinquent for 1 year
		$1,326,786			

Memorandum – Full Waiver

TO: **Phyllis Chase, Collection Manager**
Water Revenue Bureau
FROM: **Marco A. Muniz, Deputy City Solicitor**
SUBJECT: **Settlement Litigated Claims – Full Waiver**

APPROVAL OF SETTLEMENT OF LITIGATED CLAIM	**CITY OF PHILADELPHIA LAW DEPARTMENT**
CUSTOMER NAME: ODAAT, Inc. & Affiliates	VIOLATION PREMISES: See attached chart. 2432 W. Lehigh Ave.
WATER/SEWER ACCOUNT: See attached chart.	DELINQUENT BILLS: See attached chart.
UNPAID WATER/SEWER RENTS: Principal: 188,332.03 Penalty: 85,399.44 Lien: 2,280.00 **Total: 276,011.46**	S.L.C. Abated Total: $276,011.46 (All charges.)

The undersigned, having considered taxpayer's request for a full abatement of water/sewer charges, and with the approval of City Solicitor Romulo L. Diaz, Jr. (see attached e-mail), approves said abatement in the sum of **$276,011.46**. Also, please waive additional accruals if reflected for the periods stated on the accompanying chart. If any questions, please call (215-683-5212) or e-mail me.

Date: 7/13/07

Approved: Marco A. Muniz
MARCO A. MUNIZ
DEPUTY CITY SOLICITOR
TAX UNIT

Enclosures

EXHIBIT IV

Schedule – Waiver List

ODAAT Properties - Waiver List

Property List	Water/Sewer Accounts	Principal	Penalty	Lien	Total	Cycles
1909 N. 24th Street	051-88260-01909-001	1,558.57	147.34	30.00	1,735.91	0509-0706
925 N. 42nd Street	015-88620-00925-001	15,766.09	4,078.38	200.00	20,044.47	92-0706
922 N. 42nd Street	015-88620-00922-001	18,925.20	14,757.20	290.00	33,972.40	92-0706
4133 Pennsgrove Street	029-63940-04133-001	16,117.60	9,242.48	60.00	25,420.08	9308-0706
2432 W. Lehigh Avenue	**056-50000-02432-001**	**48,719.88**	**15,950.95**	**260.00**	**64,930.83**	**9308-0706**
2426 W. Lehigh Avenue	052-50000-02426-001	4,601.14	431.20	30.00	5,062.34	0503-0706
2415 W. Lehigh Avenue	056-50000-02415-001	6,680.27	4,473.06	290.00	11,443.33	9201-0706
2408 N. 15th Street	051-88070-02408-001	3.84	6.03	10.00	19.86	92-9201
2402 N. 15th Street	051-88070-02402-001	8,455.02	2,685.63	160.00	11,300.65	9810-0706
1919 W. Diamond Street	051-28440-01919-001	5,281.94	581.59	50.00	5,913.53	0408-0706
1707 Master Street	119/912-54280-01707-001	9,955.40	3,703.28	70.00	13,728.68	92-96
1705 Master Street	119/025-54280-01705-001	1,214.71	56.96	50.00	1,321.67	9407-97
1703 W. Master Street	025-54280-01703-001	14,428.08	9,049.15	250.00	23,727.23	9204-0613
1702 Master Street	025-54280-01702-001	19,980.53	10,221.08	270.00	30,471.61	92-0706
1700 W. Master Street	025-54280-01700-001	10,311.99	4,246.83	180.00	14,738.82	9204-0613
1630 W. York Street	119/051-85760-01630-001	4,757.80	5,608.30	50.00	10,416.10	92-98
1628 W. York Street	051-85760-01628-001	1,573.97	159.98	30.00	1,763.95	0508-0706
		188,332.03	85,399.44	2,280.00	276,011.46	

Delinquent Federal Accounts

Property Address	Balance Due as of May 31, 2007
401 Arch Street	$ 888
501 Arch Street	188,622
7947 Bustleton Avenue	5,021
5333 N. Camac Street	5,998
200 Chestnut Street	78,305
901 Chestnut Street	7,889
3701 Civic Center Boulevard	172
4701 Fort Mifflin Road	34,581
6500 Hegerman Street	208
601 Market Street	52,449
2970 Market Street	11,968
400 Race Street	43,538
11601 E. Roosevelt Boulevard	428
5801 E. Tabor Road	26,580
5000 Wissahickon Avenue	96,190
628 S. 54th Street	514
3901 S. Broad Street	748,733
	$1,302,084

Delinquent State Accounts

Property Address	Balance Due as of May 31, 2007
1335 Arch Street	$ 306
2201 Belmont Avenue	39,643
2341 Diamond Street	7,291
8201 Enterprise Avenue	42,818
210 N. Front Street	89,650
330 N. Front Street	4,050
1800 Hoffman Street	2,466
3333 Malta Street	7,026
1308 Race Street	3,118
2655 Roberts Avenue	187
2350 Roxborough Street	5,539
1400 Spring Garden Street	189,652
730 E. Venango Street	997
1000 Vine Street	40,488
1001 Vine Street	2,296
1030 Vine Street	1,347
1500 Vine Street	28,790
2200 Vine Street	40,497
323 N. 4th Street	2,266
4309 N. 6th Street	2,667
308 N. 10th Street	9,382
223 N. 16th Street	2,266
1235 N. 52nd Street	3,690
700 Callowhill Street	5,403
5599 Ogontz Avenue	24,865
73480 Roosevelt Boulevard	3,625
9888 Stevens Road	2,159
	$562,484

CITY OF PHILADELPHIA

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February 13, 2008

The Honorable Alan Butkovitz
City Controller
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

Dear Mr. Butkovitz:

Thank you for the opportunity to comment on the City Controller's Review of Delinquent Water and Sewer Accounts.

Before addressing the specific findings and recommendations contained in the report, I would like to provide some basic comments about the report. The account review that served as the basis for the report was conducted using data in Water1, the 30+-year-old system that was replaced on January 2, 2008. That system did not carry sufficient account history to provide a full view of the collection activity that has taken place with an account over time. Records were overwritten after a year, thus eliminating any record of shutoffs or breached payment agreements, and multiple paths of enforcement could not be followed simultaneously. The report descriptions of many of the accounts reviewed state or imply that Water Revenue Bureau (WRB) either did nothing with these accounts or ignored the rules/regulations with regard to these accounts. The absence of information about such activity in the Water1 record does not mean that such activity did not take place in the past. In addition, virtually all collection and enforcement processes in Water1 were manual or relied on program changes made over time that resulted in occasional gaps or anomalies in records. These system issues affected the way the staff in Water Revenue handled enforcement and it affected the research done by your auditors.

I will now address each of the findings.

TEST OF SAMPLE ACCOUNTS

Failure to Shut Off Delinquent Accounts Timely

Recommendation:

Management should reevaluate the entire collection process, and in connection with the implementation of a new billing system known as *basis2*, develop procedures to track complete water usage and payment history for all customer accounts, and to automatically start collection efforts when accounts become delinquent. [403607.01]

Response:
The need for an automated case management process is a primary reason that Revenue has long advocated the development of a new water billing system. The new system, basis2, was implemented on January 2, 2008. It provides for the automated referral of accounts for shutoff and other enforcement processes based upon rules that are established in the system. Collection procedures were evaluated as part of the needs analysis for the new system and new procedures were incorporated in the configuration of basis2.

Payment Agreements
Recommendation:
WRB management should become proactive and develop a long-term plan with the customer [a non-profit hospital with cash flow problems] for paying its delinquent water and sewer bill. [403607.02]

Response:
Under current regulations, WRB is limited in the types of payment agreements that it can offer to customers. For example, there are no social service programs available for commercial customers. Any customer needing a longer term or more flexible agreement would need to see the Law Department. With regard to the case reviewed, the customer entered into a payment agreement after the audit field work was completed and has been making appropriate monthly payments.

Abatement Concerns
Recommendation:
The Water Revenue Bureau should request that the City Solicitor's Office provide an explanation for all full abatements. [403607.03]

Response:
The Water Revenue Bureau will request an explanation from the City Solicitor's Office for full abatements, if one is not received with the Settlement of Litigated Claims notice. However, the City Solicitor has responsibility under Sections 8-410 and 4-400(b) of the Philadelphia Home Rule Charter to pursue and compromise delinquent accounts. Revenue has no authority to ignore a settlement notice issued by the Law Department, even if no explanation has been provided.

OTHER CONDITIONS NOTED
Special Treatment for Delinquent Federal and State Accounts
Recommendation:
WRB should follow established collection enforcement policies. [403607.04]
WRB should reevaluate is classification of the Philadelphia Naval Business Center's (PNBC) contractor as a federal government account and immediately begin appropriate collection efforts. [403607.05]

Response:

The City of Philadelphia as an instrumentality of the State that is in turn an entity of the federal government, has limited authority to force these higher levels of government to pay for liabilities that they have incurred. As a result, the working policy for decades has been to avoid shutoff and focus efforts on billing and negotiated settlements. As a result of conversations with the auditors during this review, WRB did in September 2007 request that the Law Department review the Customer Service Regulations with regard to governmental entities and agencies and provide advice regarding appropriate amendments.

Water service at the PNBC is provided through master accounts and payment is made through these accounts. The Water Department (PWD) is installing meters to provide for conversion to direct billing. A portion of the site is still occupied by federal agencies and the balance is City owned and managed by the Philadelphia Industrial Development Corporation (PIDC). PWD, WRB, and PIDC are working together to develop the best way to handle this conversion and the transition from one federal government account to multiple owner/tenant accounts.

Monitoring Accounts for Reasonableness
Recommendation:
WRB should timely review accounts for unexpected usage, investigate the nature of usage, and take corrective action, if needed, to resolve billing issues. [403607.06]

Response:
WRB does attempt to identify accounts with unexpectedly large balances and take steps to work with the customer. The case identified in the Controller's review involved the Philadelphia Housing Authority (PHA). Meetings were held with PHA, PWD, and the Law Department as soon as these high usage amounts became apparent. PHA continues to make payments for the current undisputed charges and the lawyers for both the City and PHA continue to seek ways to settle the disputed charges.

The reporting capabilities in basis2 will assist WRB in identifying such unusual situations earlier than was possible in Water1.

Sheriff Sales
Recommendation:
WRB should develop an effective process to track and monitor the status of delinquent accounts sent to the Sheriff for sale. [403607.07]

Response:
WRB does identify and track the water/sewer charges that are owed for properties involved in the Sheriff sale process. However, WRB does not know when the Sheriff completes the settlement process with the successful bidder at auction and does not know whether any proceeds remain for water after other liens with higher priority are satisfied. As a result, it is difficult for WRB to determine the timeliness of payments. Revenue will continue to work with the Sheriff's Office to improve the flow of information and insure the timeliness of payments. In the past, the Sheriff's Office often provided payments

without documentation or documentation without payments, both of which delayed the posting of payments to accounts. That situation has been corrected in recent months, with both payment and documentation arriving at the same time or in close proximity.

Employee Misconduct
Recommendations:
WRB should periodically review the personal accounts of its employees for any unusual situations, such as failure to have an AMR device installed, any unexplained changes in payment patterns for the employees' accounts, or any other unusual matters that come to its attention. [403607.08]

Management should consult with the Law Department regarding the appropriate means to recover the funds owed by the former Director of Technical Operations. [403607.09]

Response:
We agree that all City employees, especially those in WRB and PWD, should be in compliances with their obligations to the City. A full compliance review is resource intensive, but a periodic screening for anomalies should assist in the identification of situations that need further attention. WRB will seek ways to utilize the features of the new billing system to assist in screening employee accounts.

It should be noted that standard program procedures brought the situation that was cited in the report to light. PWD is notifying customers that do not have AMR devices on their meters that their water will be shut off if they do not provide access to the property for the meter change. This employee account came to their attention thorough that process. When PWD advised WRB of the situation they identified, Revenue contacted the Inspector General (IG) who conducted an investigation. In accordance with normal procedures, Revenue did not take any action on this matter while it with the IG. The IG's Office provided oral information regarding their findings in August, but the Revenue Commissioner did not receive their written report until early December 2007. Once the documentation in the written report was reviewed, WRB was directed to restore the "excess usage charges" that had been waived to the customer account for billing. Normal collection procedures will be followed to pursue collection of this account, including shutoff, lien, referral to the Law Department for collection action, and judgment filed in Municipal Court, if necessary.

Thank you again for the opportunity to comment on these issues.

Sincerely,

Keith J. Richardson
Revenue Commissioner

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