

**Post-Audit Review 13-09:
Finance Collection Agency
Contract**

February 2015

City Auditor

Stan Sewell, CPA, CGFM, CFE

Senior Auditor

Pamela Swinney, CPA





OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

February 3, 2015

To: Mayor Andy Berke
City Council Members

Subject: Post-Audit Review of Finance Collection Agency Contract (Report #13-09)

Dear Mayor Berke and City Council Members:

Attached is a summary report on the status of audit recommendations in our 2013 Finance Collection Agency Contract report. The purpose of this report is to confirm whether, and to what degree, management has implemented the recommendations made in the original audit.

The original audit concluded:

1. City Court allowed defendants to incur the cost of commission fees for delinquent accounts, in violation of City Code Section 12-21;
2. Nationwide Recovery Services had difficulty meeting contract requirements in some instances due to their computer system;
3. Nationwide Recovery Services applied incorrect commission rates and received commissions on accounts not paid in full; and,
4. Opportunities exist to recover approximately \$100,000 by litigating delinquent debtor accounts;

The audit had 10 recommendations to improve the process to maximize recovery of delinquent accounts as well as address the contract compliance issues. At the time of this Post-Audit Review, two recommendations were not implemented, four were partially implemented, and four were implemented. Recommendations partially implemented and not implemented are herein reported to the Audit Committee for follow-up, as appropriate.

This Post-Audit Review consisted principally of inquiries of City personnel and examinations of various supporting documentation. It was substantially less in scope than an audit in accordance with generally accepted government auditing standards. The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Travis McDonough, Chief of Staff
Brent Goldberg, Chief Operating Officer
Audit Committee Members
Daisy Madison, Chief Financial Officer
Barry Teague, City Treasurer
Ron Swafford, City Court Clerk
Wade Hinton, City Attorney

RECOMMENDATIONS NOT IMPLEMENTED (2)

Recommendation	Actions Taken
4 We recommended the City Attorney's Office establish minimum criteria for litigating accounts in collections and authorize NRS to make the collections on the City's behalf. In addition, the City Attorney's Office should provide standard guidance to NRS regarding settlements.	Per the contractor, Nationwide Recovery Services (NRS), the City Attorney's Office has not authorized them to litigate accounts nor provided them any criteria for litigating delinquent accounts.
7 We recommended the City Finance Officer amend the contract with NRS to require written authorization from designated City officials prior to suspending an account.	The City Attorney's Office has drafted an amendment to the contract. However, the amendment was not executed prior to the issuance of this report. It should be noted, written authorizations are provided as discussed in Recommendation # 5.

RECOMMENDATION PARTIALLY IMPLEMENTED (4)

Recommendation	Actions Taken
1 We recommended City Court discontinue the practice of adding collection agency fees to the amounts entered against the defendant prior to placing accounts with NRS.	Per the City Court Clerk, the new procedure was implemented. However, we reviewed a sample of accounts recently placed with the collection agency. Of the 15 new accounts we reviewed, we found 6 of the accounts had collection agency fees added to the balance prior to placing the account with NRS.
6 We recommended the City Court Clerk and City Treasurer's offices investigate account suspensions during the contract period on a one-time basis to identify any accounts still within the statute of limitations that were not closed for cause. All accounts found to be closed in error (including the five identified by our office) should be reinstated. In addition, we recommended the City Court Clerk and City Treasurer's offices review account suspensions for cause on a periodic basis thereafter.	Both City Court Clerk and City Treasurer indicated the divisions completed a review of account suspensions and reinstated any closed in error. However, we followed-up with the contractor regarding the five suspended accounts identified during the audit. Per NRS, only 3 of the 5 accounts were reinstated. The 2 accounts not reinstated were water quality accounts. Per the City Treasurer, one account was closed for reason. The second account has been reinstated as a result of this post audit review.

<p>9 We recommended City personnel in the City Treasurer's Office and City Court verify commissions payable to NRS prior to payment. In addition, the City Treasurer's Office should request NRS remit gross collections and invoice them on a periodic (not daily) basis.</p>	<p>City personnel are verifying commissions paid to NRS are properly calculated on collection accounts that were paid in full during the billing cycle. We reviewed current invoices from the contractor and found water quality invoices are submitted weekly. However, City Court invoices are still submitted on a daily basis.</p>
<p>10 We recommended the City Finance Officer require NRS to adhere to the contract and provide reports with original balances.</p>	<p>Our review of current invoices found original balances are still not provided for City Court accounts. The water quality collection reports did provide the original balances, as required by contract.</p>

RECOMMENDATIONS FULLY IMPLEMENTED (4)

Recommendation	Actions Taken
<p>2 We recommended the City Finance Officer consult with the City Attorney regarding any necessary actions related to the collection fees.</p>	<p>Per the City Treasurer's Office, the City Attorney was consulted and advised Finance not to issue refunds due to materiality of the overpayments.</p>
<p>3 We recommended the City Attorney prepare an ordinance to amend City Code Section 12-21 to allow the addition of collection agency fees, subject to legal research to ensure there will be no violation of federal or state laws.</p>	<p>City Code Section 12-21 has been changed to allow the City to recover from the Defendant any costs associated with collecting judgments and fines.</p>
<p>5 We recommended the City Treasurer and City Court Clerk authorize all suspended accounts via a signed letter to NRS that details a cause for suspension. The letters should be filed for review.</p>	<p>NRS provided a listing of accounts suspended between October 1, 2014 and December 31, 2014. We selected a sample to verify proper authorization was obtained. Written support documentation was provided to NRS.</p>
<p>8 We recommended City Finance Officer, in consultation with the City Treasurer's Office, determine the full cost of commissions paid on accounts not paid in full over the contract period and seek reimbursement from NRS.</p>	<p>The City has received refunds for the commission overpayments.</p>

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