

# City of Oakland Office of the City Auditor

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December 16, 2010

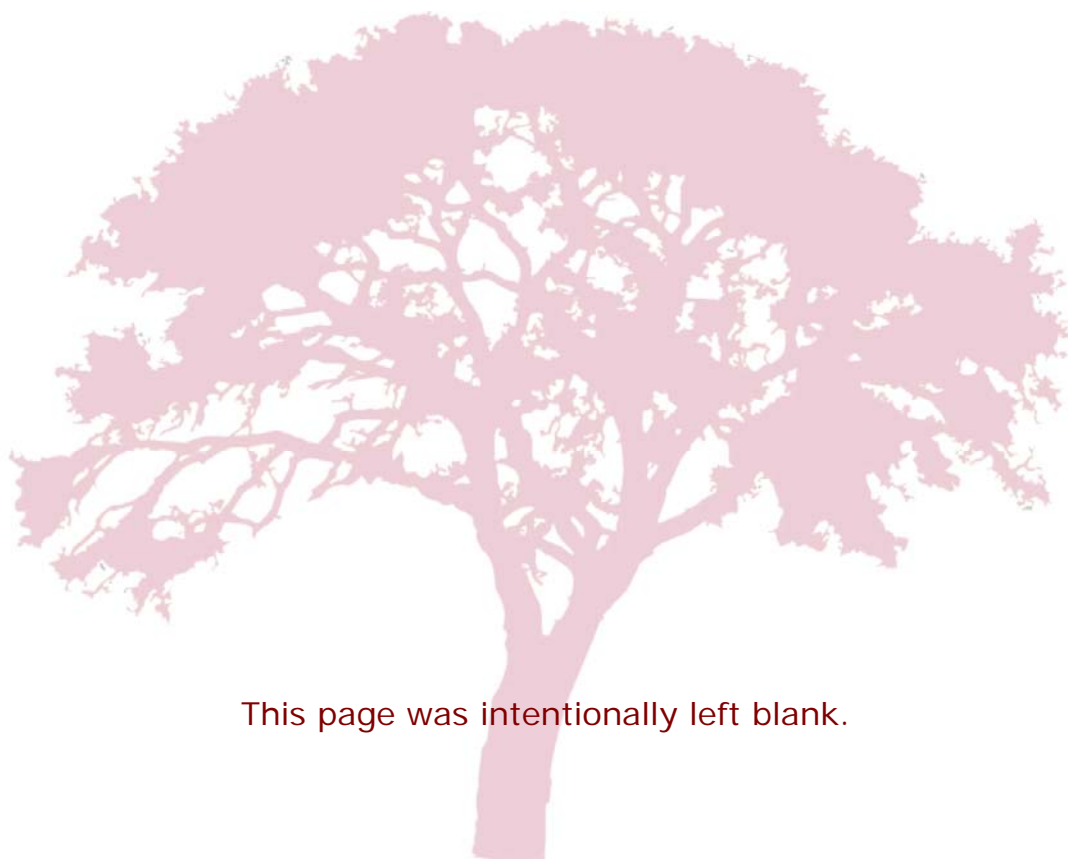
## Public Works Agency – Illegal Dumping Abatement Program Accounts Receivables Performance Audit

UNCOLLECTIBLE ACCOUNTS RECEIVABLES REMAIN ON  
THE CITY'S BOOKS AND COLLECTION EFFORTS  
ARE AN INEFFICIENT AND INEFFECTIVE  
USE OF CITY RESOURCES



City Auditor  
Courtney A. Ruby, CPA, CFE

# PERFORMANCE AUDIT



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December 16, 2010

OFFICE OF THE MAYOR  
HONORABLE CITY COUNCIL  
OAKLAND CITIZENS  
OAKLAND, CALIFORNIA

**RE: PUBLIC WORKS AGENCY–ILLEGAL DUMPING ABATEMENT PROGRAM ACCOUNTS  
RECEIVABLES PERFORMANCE AUDIT**

Dear Mayor Dellums, President Brunner, Members of the Council and Oakland Citizens:

During these difficult economic times, the Administration must ensure that the City's limited resources are being deployed as effectively and efficiently as possible to collect revenue. This performance audit of the Public Works Agency–Illegal Dumping Abatement Program's (IDAP) accounts receivable system for fiscal years 2006-07, 2007-08, and 2008-09 clearly demonstrates that they are not.

IDAP is housed within the Public Works Agency's Keep Oakland Clean and Beautiful Division and is responsible for the removal of trash and debris that has been illegally dumped in the public right-of-way. It's clear from the data that IDAP serves an important city function. Among the 31,000 service calls PWA receives on average annually, 9,357 calls (30 percent) are for the illegal dumping division. Moreover, IDAP collects more than 2,701 tons of illegally dumped appliances, furniture, tires, and household trash on average annually.

This audit's objectives were to:

- Assess whether or not IDAP's accounts receivable system has adequate internal controls to prevent the loss of revenue due to inefficiencies and errors
- Identify payments for accounts receivables that are due to the City and have not been collected or are at risk of not being collected

Overall, this audit found:

- PWA collected 11 percent of what the agency billed to illegal dumping violators from 2006 to 2009 – or \$90,058 of \$851,535
- The collection process for IDAP accounts receivables is particularly demanding on City resources and has failed to result in an adequate return-on-investment
- PWA Management's (Management) intention of creating a deterrent has resulted in back-end inefficiencies and ineffectiveness for IDAP accounts receivable staff, Finance and Management Agency (FMA)-Accounts Receivable Unit, and FMA-Citywide Collections

While Management may perceive citations as an effective tool for deterrence, receivables are being recorded in the City's financial statements with little expectation they will be collected. In its response, the Administration stated:

- The citation process was never intended to be cost-covering, but rather to serve as a deterrent
- The nature of the citation is such that most citations will, by definition, go uncollected

This audit's findings, coupled with the Administration's response, calls attention to a much more significant issue than the diminished collection rate of 11%; it demonstrates a significant disconnect between program management and fiscal responsibility.

Regardless of the program's objectives, the Administration must be aware that IDAP accounts receivables entered into the City's financial system are anticipated revenues. Issuing citations foreknown to be uncollectible clearly fails to create financial reporting that City leaders may rely upon. At no time should the Administration allow for anything less than accurate and reliable financial reporting.

The audit concludes that PWA Management should pursue alternative solutions to deterring illegal dumping and evaluate the use of staff resources for collection of IDAP invoices to demonstrate that the City's efforts toward following up on IDAP's fines and penalties are justified.

Our citizens rightfully expect that the Administration makes programmatic decisions on the principles of economy, efficiency, and effectiveness. In its response, the Administration has not only lost sight of these principles, but once again, is defending and justifying poor performance. Wasteful use of precious taxpayer dollars must be corrected, not justified.

I would like to express my appreciation to the Office of the City Administrator and Finance and Management Agency and Public Works Agency management and staff for their cooperation throughout this audit process. A response from the Administration is included at the end of the report.

I would also like to acknowledge my staff for their dedicated service in conducting this audit.

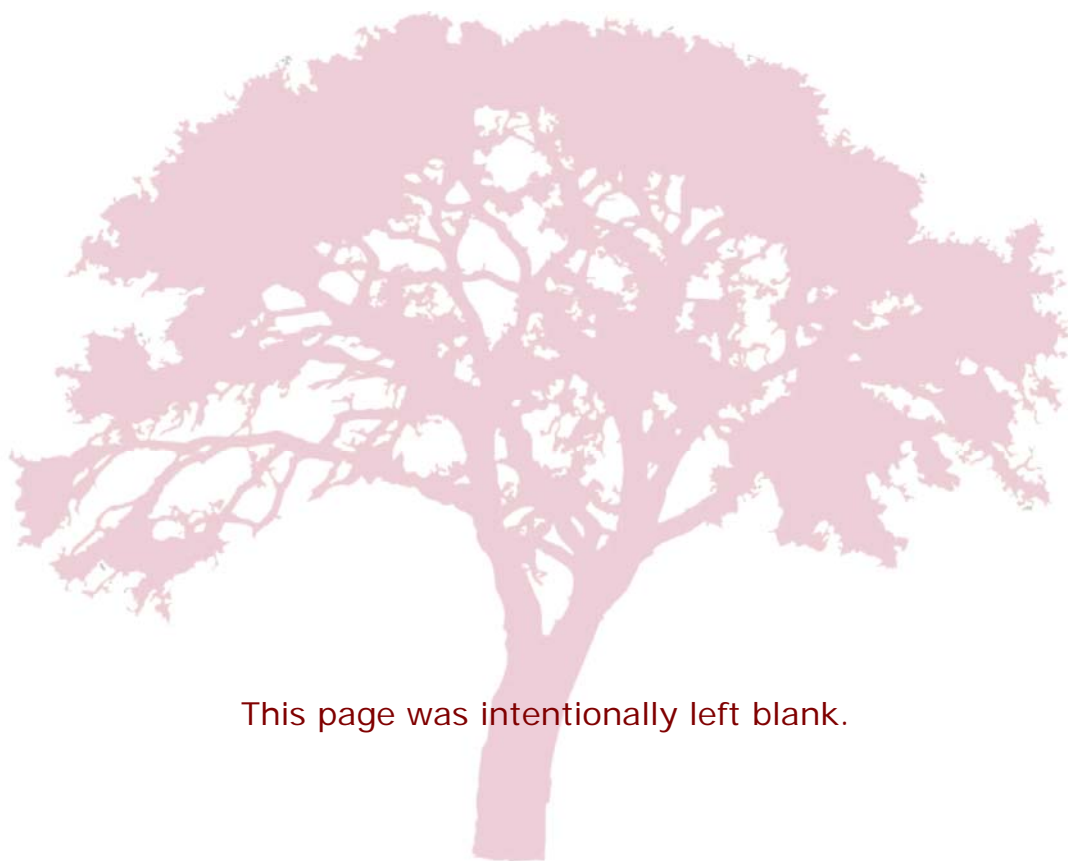
Respectfully submitted,

A handwritten signature in dark ink, reading "Courtney A. Ruby". The signature is fluid and cursive, with the first name "Courtney" being more prominent and the last name "Ruby" following in a similar style.

COURTNEY A. RUBY, CPA, CFE  
City Auditor

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## PWA-IDAP ACCOUNTS RECEIVABLE PERFORMANCE AUDIT REPORT SUMMARY

### Inadequate Internal Controls

**Inadequate Internal Controls:** *PWA and FMA Managements' inadequate internal controls resulted in uncollectible accounts receivables that remain on the City's books and create collection efforts that are an inefficient and ineffective use of City resources.*

### Overview

The Office of the City Auditor (Office) conducted a performance audit of the Public Works Agency's (PWA) accounts receivable system to ensure that the City's assets are reasonably safeguarded from potential fraud, waste, and mismanagement, as well as, the efficiency and effectiveness of the system. The objectives of the audit were to:

- Assess whether or not PWA-Illegal Dumping Abatement Program's (IDAP) accounts receivable system has adequate internal controls<sup>1</sup> to prevent the loss of revenue due to inefficiencies and errors.
- Identify payments for accounts receivables due to the City that have not been collected or are at risk of not being collected.

### Key Findings

The following are key findings from the audit:

- For calendar years (CY) 2006-2009, PWA staff billed \$851,535 but only collected \$90,058 (11 percent collection rate).
- The collection process for IDAP accounts receivables was particularly demanding of City resources, including requiring further efforts by the City's centralized accounts receivables and collections units, failing to result in an adequate return on investment.
- Deficiencies identified in internal controls included:
  - Lack of comprehensive policies and procedures for collecting IDAP accounts receivable prior to 2008.
  - PWA staff did not consistently send initial illegal dumping invoices in a timely manner.
  - PWA Management does not maintain guidelines on how to detect and report fraud to Management in the event that it occurs.
  - Sufficient documentation to pursue collection efforts was not always maintained and PWA Management could not provide documentation supporting that an allowance for doubtful accounts was established and uncollectible accounts receivable for illegal dumping remain on the City's books.

<sup>1</sup> Internal controls consist of plans, methods, policies, and procedures used to meet management's mission, goals, and objectives. Internal controls should be designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) effectiveness and efficiency of operating operations, 2) reliability of financial reporting; and 3) compliance with applicable laws and regulations.

## Recommendations

To address the audit's findings, the report includes seven recommendations.

We recommend that PWA Management:

- Evaluate the effectiveness of its multi-pronged approach to deterring illegal dumping, including community outreach, investigation, and enforcement. Its evaluation should consider cost effective alternatives and distinctive ways to identify violators and deter illegal dumping, such as options discussed and recommended in the April 2009 PWA Performance Audit.
- Implement a consistent invoicing and follow-up procedure to ensure that PWA provides initial invoices to illegal dumping violators in a timely manner.
- Develop formal fraud detection and prevention policies and procedures, including providing staff with guidelines for reporting potential fraud in the event that it occurs.
- Develop policies and procedures regarding the reviewing and monitoring of illegal dumping cases to ensure all required documentation necessary to pursue a case is in the file and dated within the statute of limitation prior to pursuing the case.

We recommend that the City Administration:

- Direct PWA Management and FMA Management to conduct a cost-benefit analysis to determine whether or not the three-tiered approach with PWA Management, FMA-AR Unit and FMA Citywide Collections is the most effective and efficient utilization of resources in collecting PWA-IDAP hard to collect invoices.
- Allocate the needed resources to implement the recommendations from the April 2009 PWA Performance Audit or implement viable alternatives to reach the same result.

We recommend that FMA Management:

- Review its internal controls over accounts receivables to ensure that:
  1. Accurate accounts receivable aging reports are prepared systematically and timely.
  2. Periodic estimates are made of uncollectible accounts receivable balances with such estimates timely reported to management.
  3. A clear allowance for doubtful accounts is established to ensure that the financial records properly reflect the amount of the accounts receivables that management estimates will be uncollectible.
  4. Establish a policy regarding the length of time the receivable and the doubtful allowance account will remain on the books before being removed completely.
  5. Proper write-off, conversion, and settlement or forgiveness of delinquent accounts is assured.



## Introduction

The City of Oakland has been operating in an environment of severe budget deficits since fiscal year (FY) 2007-08. Deficits have gripped municipalities and state governments across the country since the onset of the current recession. As revenue streams shrink, it is essential that accuracy, internal controls, and tracking in accounts receivables remain at the forefront of the City Administration's efforts to bring in all revenue due to the City. To ensure that the City's assets and resources are reasonably safeguarded from potential fraud, waste, and mismanagement, the Office of the City Auditor (Office) conducted a performance audit of the Public Works Agency's (PWA) efficiency and effectiveness of its accounts receivable system and to identify revenue from accounts receivables due to the City that had not been collected or was at risk of not being collected.

## Background

The Illegal Dumping Abatement Program (IDAP) within the Public Works Agency's Keep Oakland Clean and Beautiful Division is responsible for the removal of trash and debris that has been illegally dumped in the public right-of-way. The Litter Enforcement Officers are the investigative arm for illegal dumping and are responsible for assessing administrative fines against illegal dumping perpetrators. IDAP is an important function within Public Works, as among the 31,000 service calls the department receives on average annually, 9,357 (30 percent) are for the illegal dumping division. On average, IDAP collects more than 2,701 tons of illegally dumped appliances, furniture, tires, and household trash annually.

Illegal dumping is often spurred by cost and convenience considerations. It can occur to avoid disposal fees – the cost of fees for dumping at a proper waste disposal facility are often more than the fine for an illegal dumping offense, thereby discouraging people from complying with the law. It can also occur to avoid the time and effort that is required for proper disposal at landfills or recycling centers.

IDAP was designed to focus on community involvement to reduce illegal dumping. The objective of IDAP is to provide a safe and clean environment for the citizens of Oakland.

PWA staff estimated that each year it costs the City approximately \$5 million to remove illegal dumping from City streets<sup>2</sup>. These costs include Personnel, O&M, Equipment, and Disposal Fees, as shown in Exhibit 1.

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<sup>2</sup> Litter Enforcement Activities Informational Report, June 26, 2007 (See Appendix 6) Personnel costs fluctuated over the three year period covered in the audit.

<b>Exhibit 1: Estimated Annual Illegal Dumping Program Costs</b>	
<b>Cost Category</b>	<b>Amount</b>
Personnel	\$4,106,911
Operations & Maintenance	\$384,309
Equipment	\$216,062
Disposal fees	\$429,000
<b>Total Annual Cost</b>	<b>\$5,136,282</b>

Despite ongoing efforts to deal with illegal dumping, it continues to persist as one of the most challenging problems that the City of Oakland is facing.

#### Process for Collecting Illegally Dumped Refuse

Illegal dumping calls are placed to the PWA Call Center and then dispatched to the appropriate IDAP Supervisor. If there is adequate evidence, the call is forwarded to a Litter Enforcement Officer (LEO) to investigate the incident. IDAP collects the illegally dumped refuse whether or not a violator is identified. In most cases, the location of the refuse is provided to IDAP along with information regarding the type of debris to be collected.

The LEOs are involved in the investigation of violations, as well as identifying the violators of the illegal actions. The LEOs are authorized to charge fines against offenders of illegal dumping, hauling, and blight on public property. In addition, the LEOs are responsible for providing outreach to local businesses, community groups, and citizens who are interested in working collaboratively to find problem-solving tactics for illegal dumping, hauling, and blight. Specifically, the LEOs' responsibilities include:

#### **Outreach and Education**

The LEOs provide information, public education, and outreach to the business community, community groups, and other interested groups that work together to identify problem solving strategies on issues of illegal dumping, illegal hauling, and blight on public property.

#### **Investigation, Identification, and Enforcement of Violators**

The IDAP program utilizes the Oakland Municipal Codes (OMC) and California Penal Codes (CPC), as well as existing blight laws to investigate complaints and issue citations for violations of illegal dumping. The average administrative fine for illegal dumping is \$1,000. Depending on the size of the pile, the fine

may escalate to thousands of dollars. LEOs issue citations on vehicles parked illegally on the streets and sidewalks, post warning signs on misused litter containers, and issue encroachment notices for items illegally placed in the public right of way.

## Objectives, Scope & Methodology

### Audit Objectives

The objectives of the audit were to:

1. Assess whether or not PWA-IDAP accounts receivable system has adequate internal controls<sup>3</sup> to prevent the loss of revenue due to inefficiencies and errors
2. Identify payments for accounts receivables due to the City that have not been collected or are at risk of not being collected

### Audit Scope

The audit comprises accounts receivable activities of PWA-IDAP, policies and procedures, as well as invoices issued during Fiscal Years (FYs) 2006-07, 2007-08, and 2008-09. The documents reviewed for these fiscal years included statements of accounts receivables, as well as the source documentation that supported the statement balances such as the accounting general ledger.

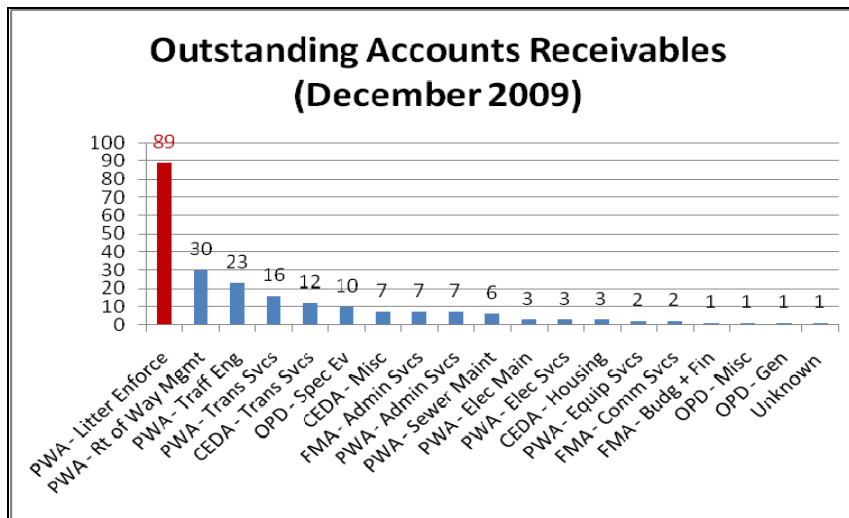
### Audit Methodology

Beginning in February 2008, the City Administration established the Finance and Management Agency – Accounts Receivables Unit (FMA-AR Unit) to capture, report, adjust, and track the life-cycle of accounts receivables, including billing, collection, and write-off procedures. The City Auditor's Office conducted a preliminary risk assessment of FMA-AR Unit's outstanding accounts receivable database<sup>4</sup>. The assessment found that PWA-IDAP had the highest number of outstanding accounts receivables among any other City department or program within FMA-AR Unit's database. Specifically, as of December 2009, IDAP had 89 outstanding accounts receivables, which represented 40 percent of all receivables, compared with the number of outstanding accounts receivables of other departments and programs that ranged from 1 to 30, as shown in Exhibit 2. The number of outstanding receivables was also a concern for the Public Works Committee in 2007. As a result, the Committee requested that PWA Management explain the reason for the number of outstanding receivables in the Litter Enforcement Activities Informational Report, dated June 26, 2007.

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<sup>3</sup> Internal controls consist of plans, methods, policies, and procedures used to meet management's mission, goals, and objectives. Internal controls should be designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) effectiveness and efficiency of operating operations, 2) reliability of financial reporting, and 3) compliance with applicable laws and regulations.

## Exhibit 2: Outstanding Centralized Accounts Receivable, December 2009



Source: Finance and Management Agency

The audit objectives were developed to provide clarity to understand the reasons PWA-IDAP had the highest number of outstanding accounts receivables among other City departments or programs.

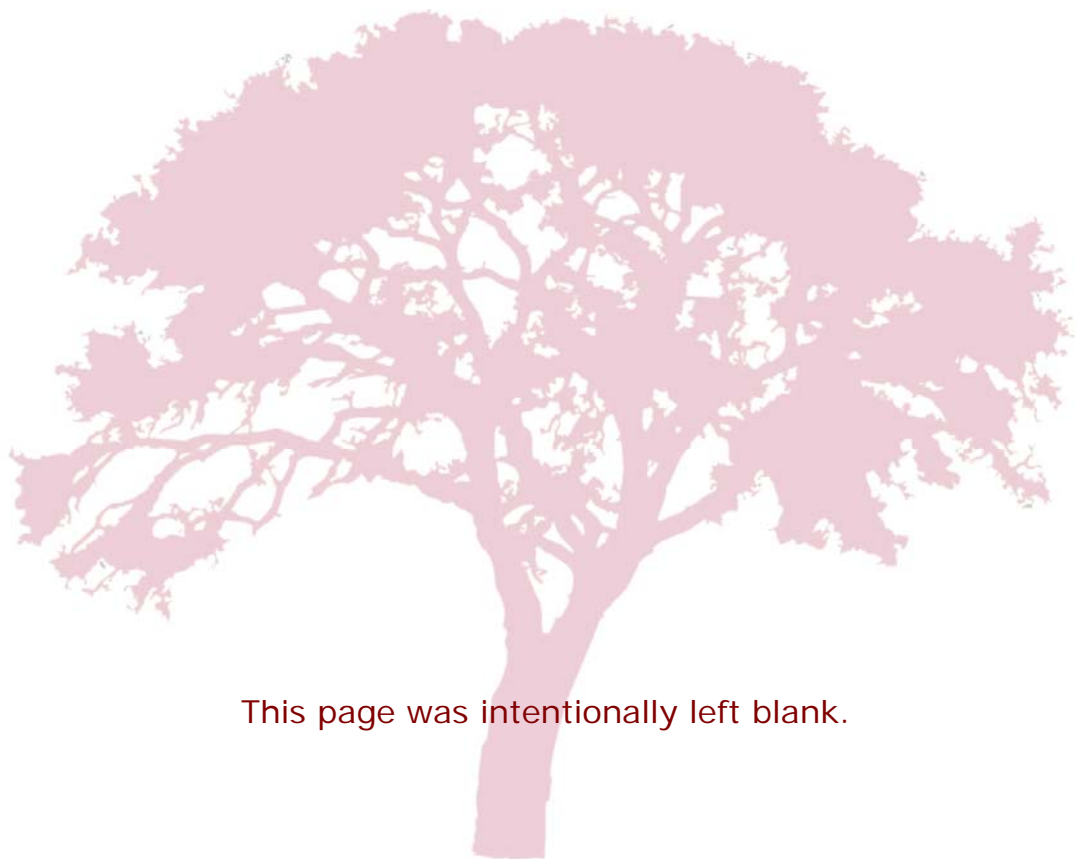
This section describes the methodologies we used to complete the audit objectives. To accomplish these objectives, we employed a variety of audit tests, interviews, and other methods to obtain appropriate data, evidence, and context for the information to support our work. Specifically, we:

1. Reviewed all materials received from PWA-IDAP and PWA Fiscal Services;
2. Conducted interviews with management and staff from PWA and FMA;
3. Completed site visits to PWA and FMA offices to observe accounts receivable duties being performed;
4. Verified whether PWA-IDAP adhered to the City of Oakland's Administrative Instruction (AI) 1051- Billing, Collection and Write-Off Procedures; and
5. Performed audit testing on selected samples of PWA-IDAP invoices.

<sup>4</sup> All City departments that invoice for their services are included in the FMA-AR Unit's outstanding receivables database if over 120 days had passed and the revenue had not yet been collected, except the Office of Parks and Recreation and the Parking Division operate their own accounts receivable process.

We randomly selected 30 invoices from the three fiscal years to ensure a significant sample size and judgmentally selected a sample of the 10 highest dollar invoices to identify the areas of potential internal control weaknesses. Under this methodology, the areas of greatest risk are identified and items are selected for further review. The results of the judgmental sample are considered when evaluating the quality of the population reviewed.

We performed this performance audit in accordance with the 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.



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# Audit Results

## UNCOLLECTIBLE ACCOUNTS RECEIVABLES REMAIN ON THE CITY'S BOOKS AND COLLECTION EFFORTS ARE AN INEFFICIENT AND INEFFECTIVE USE OF CITY RESOURCES

The audit found that the IDAP program had an 11 percent collection rate of the invoices billed to illegal dumping violators. From calendar years (CY) 2006-2009, PWA staff billed \$851,535 but only collected \$90,058<sup>5</sup>. In addition, FMA-AR Unit and FMA Citywide Collections collected an additional total of \$72,823 over the three year period, between FYs 2006-2009<sup>6</sup>. Although PWA Management and FMA Management acknowledged that the majority of the receivables that had not been collected were essentially uncollectible, the outstanding balance remains on the City's financial records. The audit also found that the collection process for IDAP accounts receivables was particularly demanding of City resources but failed to result in an adequate return-on-investment. Therefore, the cost of the collection process outweighs the benefit and is an inefficient and ineffective use of City resources. Aside from these significant deficiencies, we found several other weaknesses in the accounts receivable system's internal controls.

PWA and FMA Management explained that the accounts receivable balance for illegal dumping cases are among the least viable in terms of collections for several reasons, including:

- The accounts receivable balance consists of offenders who do not own property upon which the City may place a lien
- If debts can be successfully collected, they typically take four years or longer to be paid

Our audit results found evidence of Management's assertion that illegal dumping accounts receivables are, in fact, difficult to collect. However, the audit findings also indicate deficiencies in the accounts receivable system for the illegal dumping program. These deficiencies include:

- Lack of comprehensive policies and procedures for collecting illegal dumping accounts receivable prior to 2008
- Not providing initial invoices to illegal dumping violators in a timely manner
- Not providing illegal dumping violators with a detailed schedule of the assessed fines for each case for FYs 2006-2008
- Lack of procedures regarding the potential detection and reporting of fraud
- Failure to establish an allowance for doubtful accounts
- Failure to write off uncollectible illegal dumping accounts receivable

<sup>5</sup> The audit scope included FYs 2006-2009; however, PWA provided information for collection activities during calendar years 2006-2009.

<sup>6</sup> The collection total provided by FMA-AR Unit has not been validated as part of the audit. The information is provided for context as it relates to the City's collection efforts for PWA-IDAP, as a whole.

## PWA – IDAP Accounts Receivable Collection Process

In 2008, a Citywide analysis of accounts receivables was conducted in an effort to standardize policies in use to bill, record, track, collect, report, and write off debts owed to the City. As a result, the City Administrator's Office established Administrative Instruction 1051 (AI 1051).

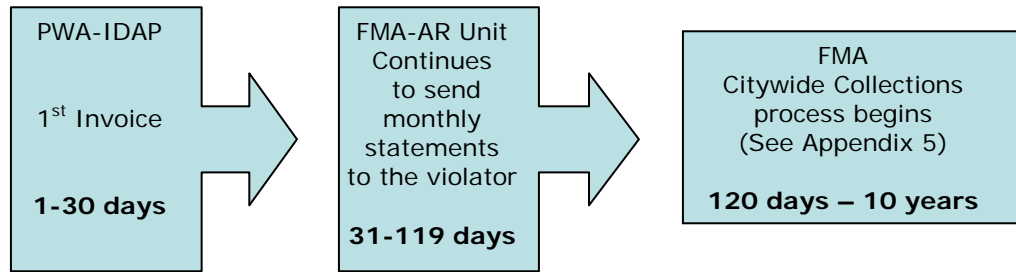
PWA Management asserted that it relies on the processes established in AI 1051 for the collection of IDAP accounts receivables. Specifically, AI 1051 establishes policies and procedures for consistent and timely methods to capture, report, adjust, and track the life-cycle of accounts receivables, including the billing, collection, and write-off of these receivables; and, to provide guidance and assistance to City departments and agencies to meet efficiently and successfully the mutual goals of collecting and retiring receivables while ensuring the accurate recording of data in the City's centralized financial system.

Since the audit scope included FYs 2006-2009, the audit requested PWA Management provides policies and procedures that were in place prior to the 2008 establishment of AI 1051. PWA Management provided a policy and procedure that was in effect as of February 2007. However, the audit found that the policy did not provide specific guidelines for reporting, adjusting, and tracking the life-cycle of accounts receivables, including the billing, collection, and write-off of the receivables. Further, PWA Management could not provide any policies and procedures for accounts receivables prior to 2007. Therefore, it is unclear what policy and procedure, if any, PWA was following prior to 2007. Without proper policies and procedure in place for the collection of accounts receivables, PWA could have missed opportunities to collect viable fines from violators.

As of 2008, the PWA-IDAP billing and collection process, as shown in Exhibit 3, begins after the identification of the illegal dumping violator. When sufficient evidence is collected to trace the dumping to an individual, the LEO works with a Public Service Representative (PSR) in PWA to assess fines for the illegal dumping violation. The fines depend on the size and cubic yardage of the illegally dumped refuse. The violator is mailed an invoice containing a description of the violation and the amount of the fine for the illegal dumping. If payment is not made within 30 days, FMA-AR Unit assumes the responsibility to collect from the violator. FMA-AR Unit continues to send monthly statements to the illegal dumping violator. After 120 days, FMA Citywide Collections begins its collections process, as described in Appendix 5.



### Exhibit 3: PWA-IDAP Accounts Receivable Collections Process



During CYs 2006-09, PWA had an average collection rate of 11%

The audit found that PWA collected an average of 11% of what the agency billed to illegal dumping violators. From CYs 2006-09, PWA staff billed \$851,535 but only collected \$90,058.

Exhibit 4 illustrates the average collection rate on a yearly basis and the collection pattern over the audit's scope.

### Exhibit 4: PWA-IDAP Accounts Receivable Collections Process

Calendar Year	2006	2007	2008	2009	Total
Number of Cases	408	272	251	166	1097
Amount Billed by PWA	\$210,197	\$207,358	\$257,271	\$176,709	\$851,535
Collected by PWA	\$34,441	\$20,417	\$9,607	\$25,593	\$90,058
Percentage Collected by PWA	16%	10%	4%	14%	11% (average)
Number of LEOs	6	6	5	3.5	
Source: Public Works Agency					

Important points to note regarding Exhibit 4 include:

- The amount billed for illegal dumping by PWA-IDAP declined from \$210,197 in CY 2006 to \$176,709 in CY 2009
- The amount of revenue collected by the Agency declined from \$34,441 in CY 2006 to an average of \$18,539 over the last three calendar years
- Overall, the Agency collected 16 cents on the dollar in CY 2006 compared to an average of nine cents on the dollar over the last three calendar years

As indicated in Exhibit 4, the audit also found a 59 percent reduction in cases – from 408 cases in CY 2006 to 166 cases in CY 2009. PWA Management explained that the cases decreased due to staff reductions of LEOs and a modification in the strategic focus of IDAP by PWA Management from enforcement and assessing fees to community outreach and education activities. The strategic shift was designed to address the systemic problem of illegal dumping, reduce the amount of time spent investigating incidents by LEO, and focus on long term solutions, including enforcement, public education, mitigation, and prevention. This in turn could result in fewer cases filed, and ultimately reduce the amount of illegal dumping taking place. PWA Management stated that while it shifted the IDAP program focus to outreach and education, it wanted to retain the authority to assess fees. This ability to invoice violators would serve as a deterrent for illegal dumping. However, the audit found that PWA Management's front-end intention of creating a deterrent resulted in a back-end inefficiency and ineffectiveness of hard to collect invoices for PWA-IDAP accounts receivable staff, FMA-AR Unit and FMA Citywide Collections.

Therefore, PWA Management should evaluate the effectiveness of its multi-pronged approach to deterring illegal dumping, which includes community outreach, investigation, and enforcement. Its evaluation should consider cost effective alternatives and other distinctive ways to identify violators and deter illegal dumping, such as options discussed and recommended in the April 2009 PWA Performance Audit. Additionally, in coordination with FMA Management, PWA Management should re-evaluate whether or not collecting fines that require staff from PWA Management, FMA-AR Unit and FMA Citywide Collections is the most efficient use of resources dedicated to bringing in hard to collect invoices. In the City's difficult economic situation, it is imperative that the City Administration ask itself if its limited resources are being deployed as effectively and efficiently as possible to collect revenue. The audit of the Illegal Dumping Division demonstrates that they are not.

PWA does not consistently send initial illegal dumping invoices in a timely manner

While identifying the addresses of illegal dumping violators is a difficult process, the audit found that once the violator was identified, IDAP did not consistently send initial invoices to violators in a timely manner. After analyzing the invoicing process, the audit found that PWA Management did not aggressively send out initial invoices.

In a review of 40 random and judgmental sample invoices, the audit determined that the days between the identification of the violator and IDAP mailing the initial invoice ranged from 2 to 122 days (see Appendices 1 and 2), with 16 of 40, or 40%, sent more than 30 days after the illegal dumping violator had been identified. PWA-IDAP staff indicated no written procedure existed specifying when the first invoice should be issued. The successful collection of accounts receivables depends on consistent and timely invoices being provided to illegal dumping violators to initiate the collection process. If invoices are not provided to violators timely and consistently, revenue from accounts receivable is at risk of not being collected. Furthermore, best practices recommend that bills should be initiated following established procedures, recorded in the accounts receivable system and generated within an established time period after initial service delivery.

Due to the high volume of illegal dumping and its costs to the City, implementing a consistent invoicing and follow up procedure will enhance PWA's ability to collect revenues in a timely manner. Therefore, we recommend that PWA Management ensure that initial invoices are sent to illegal dumping violators within 30 days of the identification of the violator.

In FYs 2006-2008, Illegal Dumping Violators were not provided adequate details regarding assessed fines; however, in FY 2008-09, PWA-IDAP took corrective action

PWA-IDAP assesses fines for illegal dumping violations based on the size and cubic yardage of each violation. The Master Fee schedule should serve as a reference for violators to understand fines in a clear and concise manner. However, for FYs 2006-2008, the Master Fee Schedule did not reflect a range of fines for each offense as documented in the invoices that the audit reviewed.

For example, within each invoice, standard fines apply, which include:

- An hourly rate of \$425 for investigation, removal, and disposal of illegal dumping
- An hourly rate of \$77.16 for the Litter Enforcement Officer
- Fines for first offenses ranging between \$250 and \$750, based on cubic yardage

However, the audit found there was a lack of clarity regarding the first offense fine, which ranges from \$250 to \$750, depending on the volume of illegal dumping. Each of the invoices that were tested as part of the audit lacked an explanation for the specific amount fined. This was problematic for two

significant reasons including:

- The lack of detailed information in the Master Fee Schedule failed to provide transparency regarding fines for illegal dumping violations
- Without proper details and explanation of the fine, violators are less likely to surrender payment

In FY 2008-09, IDAP took corrective actions regarding the Master Fee Schedule by revising the invoicing process, detailing the exact reason for first, second, or third offenses. As a result, the audit found that PWA Management proactively addressed an operational deficiency that improved the program's transparency.

PWA Management should develop specific guidelines on how to detect and report fraud to management in the event that it occurs

PWA staff occasionally accepts cash from illegal dumping violators to make account payments. FMA Management conducted a citywide cash handling training in December 2009 to address the City's internal controls related to the City's point of sale system. Although PWA Management has formal policies and procedures regarding cash handling, the policy and procedure does not contain any guidance for fraud.

According to PWA Management, the cash handling of illegal dumping accounts receivables has internal controls built within the system that successfully eliminate fraud. However, PWA Management also acknowledged the absence of formal policies and procedures outlining fraud prevention and detection methods. If staff is not aware of how to prevent or detect fraud, then there is a greater risk that staff may not be able to prevent or detect fraud in the accounts receivable process. Given that revenue handling, specifically cash, is generally considered a high risk area for fraud, we recommend that PWA Management develop formal fraud policies and procedures for staff. Specifically, Management should develop specific guidelines on how to detect and report fraud to management in the event that it occurs.

Sufficient documentation to pursue collection efforts is not always maintained and collection efforts are not always made in a timely manner

As stated previously, FMA-AR Unit begins its collection efforts 30 days after the initial invoice is sent to the illegal dumping violator. The audit requested the total IDAP accounts receivable dollars collected by FMA-AR Unit and found that FMA collected a total of \$72,823 over the three year period, between FYs 2006-2009<sup>7</sup>. However, FMA Management stated that the dollars

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<sup>7</sup> The collection total provided by FMA-AR Unit has not been audited as part of our review. The information is provided for context as it relates to the City's collection efforts for PWA-IDAP, as a whole.

collected were not necessarily from referrals made during FYs 2006-2009. Rather, the dollars collected could be for cases referred to FMA-AR unit during previous years. These results indicated that while FMA-AR Unit has made an effort to collect outstanding IDAP receivables, the collection rate is still relatively small given:

- The total dollar amount of outstanding invoices
- Time and resources dedicated to the collection process by both PWA and FMA

Similar to PWA, FMA Management also asserted that PWA-IDAP invoices are the least viable for collections because the collection process is complex and could encompass several years of rigorous collections activity. For details of the citywide collection process for PWA-IDAP invoices (see Appendix 5).

In 2008, with the establishment of AI 1051, FMA Management began to evaluate IDAP accounts receivables to determine whether or not the receivables were collectible. As a result, FMA Management deemed 33 cases totaling \$35,934.63 uncollectible, as depicted in Appendix 3.

FMA Management provided various reasons for deeming the cases uncollectible, including missing documentation, lack of evidence, statute of limitation expiration, and inability to locate violator. Of the 33 cases, eight were either missing documentation or the statute of limitation for using the evidence to pursue the case had expired. PWA Management explained that the missing documentation and statute of limitations issues were a result of the court closing the case because either the case did not contain all of the required evidence (e.g., three pieces of mail or documentation with a name and address found in the illegally dumped material) or the dates on the evidence collected from the illegally dumped material relative to when the case was heard was beyond the statute of limitations. These eight cases totaled \$8,214.37. While the total dollars may be immaterial compared to PWA-IDAP's total outstanding accounts receivable balance, the issue is problematic because resources were spent pursuing cases for which necessary documentation needed to pursue a judgment against the violator was missing or outdated. These receivables could have been deemed uncollectible if PWA Management had evaluated the case closely to ensure all required documentation was present and within the statute of limitation to pursue a case. We recommend that PWA Management develop policies and procedures regarding reviewing and monitoring illegal dumping cases to ensure all required documentation necessary to pursue a case is in the file and dated within the statute of limitations prior to pursuing the case.

An allowance for doubtful accounts should be established and uncollectible accounts receivables for illegal dumping should be written off

FMA Management stated it had established an allowance for doubtful accounts for PWA-IDAP receivables. The audit reviewed the Comprehensive Annual Financial Report (CAFR) and noted that an allowance for doubtful accounts was established but FMA Management could not provide supporting documentation for the total allowance for doubtful accounts or line item detail related to PWA-IDAP receivables.

In the final days of the audit, FMA Management provided a policy that states that, in accordance with Generally Accepted Accounting Principles (GAAP), the City establish an allowance for doubtful accounts for accounts more than 360 days old at the end of the year. The policy further states that as a result of the GAAP requirement, the City's books reflect only the net realizable value of the receivables, as presented in the audited CAFR. As of the completion of the audit, this policy was not included in AI 1051.

Government Finance Officers Association best practice states a sound framework of internal controls is necessary to afford a reasonable basis for finance officers to assert that the information they provide can be relied upon. Without proper supporting documentation for accounts receivables, where an allowance for doubtful accounts has been established, FMA Management cannot verify that the accounts receivables were accurately determined to be uncollectible.

FMA Management should establish a clear allowance for doubtful accounts policy to ensure that the financial records properly reflect the amount of the accounts receivables that Management estimates will be uncollectible. The method of establishing an allowance for doubtful accounts should be left to Management's discretion. However, the estimated allowance should be based upon historical data or other pertinent information, and the rationale should be clearly documented. FMA Management did not provide any documentation to demonstrate that a doubtful allowance account for the outstanding accounts receivables had been established nor the rationale for establishing, such an allowance.

Therefore, the audit found that FMA Management had not established an allowance for doubtful accounts for PWA-IDAP and the uncollectible accounts receivables remain on the City's books. In fact, outstanding accounts receivables for cases that were initiated in 2006 remain on the City's books.

When FMA Management establishes an allowance, it should have documentation that shows how each of these accounts receivables meets the criteria to be deemed uncollectible. It

should also maintain documentation that shows approval for the establishment of a doubtful allowance account for these accounts receivables. Lastly, it should establish a policy regarding the length of time the receivable and the allowance account will remain on the books before being removed completely.

PWA Management stated that IDAP receivables are unique in that the City does not place liens on a violator's property but rather continues to pursue collection activity from the individual. Given the unique composition of illegal dumping receivables and the associated collection challenges, writing off uncollectible receivables is imperative. As shown previously in Exhibit 4, PWA consistently collects a small percentage of its illegal dumping accounts receivables. Therefore, a number of the accounts receivable balances that remain on the books are likely to be uncollectible but have not been written off.

We recommend that FMA Management review its internal controls over accounts receivables to ensure that:

- Accurate accounts receivable aging reports are prepared systematically and timely
- Periodic estimates are made of uncollectible accounts receivable balances with such estimates timely reported to management
- A clear allowance for doubtful accounts is established to ensure that the financial records properly reflect the amount of the accounts receivables that management estimates will be uncollectible
- Proper write-off, conversion and settlement or forgiveness of delinquent accounts is assured

## Conclusion

Overall, the audit found that PWA-IDAP's relatively high number of outstanding accounts receivable and low collection rate are attributed to the difficulty in collecting balances from offenders who do not own property upon which the City may place a lien; and debts typically taking four years or more to be paid. Additionally, since PWA and FMA Management state that the PWA-IDAP receivables are essentially uncollectible, the outstanding balances should be removed from the City's financial records.

Regarding the audit's first objective to assess the internal controls to prevent loss of revenue due to inefficiencies and errors, the audit concluded that pursuing collection for accounts receivables that are deemed uncollectible consumes the City's resources and fail to result in an adequate return-on-investment. The City Administration should evaluate whether or not staff time and resources spent by PWA and FMA Management pursuing these receivables is appropriate given the low collections rate and process inefficiency. If the City continues to

pursue collection of these accounts receivable, the internal controls for the accounts receivable system should be improved to prevent the loss of revenue due to inefficiencies and errors. Specifically, PWA-IDAP should send initial invoices in a timely manner and continue to provide illegal dumping violators with a detailed schedule of the assessed fines for each case. In addition, FMA Management should analyze the accounts receivable aging reports to estimate uncollectible PWA-IDAP accounts receivables with appropriate and accurate supporting documentation to make recommendations to establish an allowance for doubtful accounts and finally write-off the accounts receivables.

Regarding the second audit objective, the audit identified a number of payments for accounts receivables due to the City that have not been collected or are at risk of not being collected. Given the high proportion of outstanding accounts receivables the IDAP program comprises for the City's centralized FMA-AR Unit (40 percent), coupled with Oakland's high volume of illegal dumping and costs of about \$5 million annually, the audit concludes that PWA Management should pursue alternative solutions to deterring illegal dumping and evaluate the use of staff resources for collection of IDAP invoices to demonstrate that the City's efforts toward following up on IDAP's fines and penalties are justified. Further, PWA Management should implement the recommendations provided in the City Auditor's April 2009 Performance Audit of the Public Works Agency as it pertains to illegal dumping or viable alternatives to achieve the same results. The recommendations identified several cost-effective ways to decrease illegal dumping, including: 1) the usage of surveillance cameras, and 2) Internet-based HDTV systems or wireless IP cameras in a fixed wireless network. We recommend that the City Administration allocate the needed resources to implement these recommendations or similar alternatives. Appendix 4 provides excerpts from the April 2009 Performance Audit of the Public Works Agency.



## RECOMMENDATIONS

### We recommend PWA Management:

Recommendation #1	Evaluate the effectiveness of its multi-pronged approach to deterring illegal dumping, including community outreach, investigation, and enforcement. Its evaluation should consider cost effective alternatives and other distinctive ways to identify violators and deter illegal dumping, such as options discussed and recommended in the April 2009 PWA Performance Audit.
Recommendation #2	Implement a consistent invoicing and follow-up procedure to ensure that PWA provides initial invoices to illegal dumping violators in a timely manner.
Recommendation #3	Develop formal fraud detection and prevention policies and procedures, including providing staff with guidelines for reporting potential fraud in the event that it occurs.
Recommendation #4	Develop policies and procedures regarding reviewing and monitoring illegal dumping cases to ensure all required documentation necessary to pursue a case is in the file and dated within the statute of limitations prior to pursuing the case.

### We recommend the City Administration:

Recommendation #5	Direct PWA Management and FMA Management to conduct a cost-benefit analysis to determine whether or not the three-tiered approach with PWA Management, FMA-AR Unit, and FMA Citywide Collections is the most effective and efficient use of resources in collecting PWA-IDAP invoices.
Recommendation #6	Allocate the needed resources to implement the recommendations from the April 2009 PWA Performance Audit as it pertains to illegal dumping or viable alternatives to achieve the same results.

### We recommend FMA Management:

Recommendation #7	<p>Reviews its internal controls over accounts receivables to ensure that:</p> <ul style="list-style-type: none"> <li>• Accurate accounts receivable aging reports are prepared systematically and timely</li> <li>• Periodic estimates are made of uncollectible accounts receivable balances with such estimates timely reported to management</li> <li>• A clear allowance for doubtful accounts is established to ensure that the financial records properly reflect the amount of the accounts receivable that management estimates will be uncollectible</li> <li>• Establish a policy regarding the length of time the receivable and the doubtful allowance account will remain on the books before being removed completely</li> </ul>
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	<ul style="list-style-type: none"><li>• Proper write-off, conversion and settlement or forgiveness of delinquent accounts is assured</li></ul>
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## Appendix 1: RANDOM SAMPLE<sup>8</sup>

Item Number	Numbers of days elapsed between identifying Illegal dumping violator and sending the initial invoice
1	3
2	<b>32</b>
3	3
4	11
5	15
6	17
7	<b>112</b>
8	23
9	2
10	16
11	<b>48</b>
12	16
13	27
14	<b>122</b>
15	10
16	10
17	<b>79</b>
18	<b>81</b>
19	12
20	<b>90</b>
21	18
22	18
23	<b>99</b>
24	11
25	15
26	12
27	<b>35</b>
28	23
29	23
30	26

Note: Bolded number of days elapsed indicate initial invoices sent more than 30 days after the identification of the illegal dumping violator.

## Appendix 2: JUDGMENTAL SAMPLE<sup>9</sup>

Invoice Number	Numbers of days elapsed between identifying Illegal dumping violator and sending the initial invoice
1	<b>35</b>
2	<b>77</b>
3	26
4	<b>81</b>
5	<b>36</b>
6	<b>98</b>
7	30
8	<b>84</b>
9	15
10	<b>33</b>

Note: Bolded number of days elapsed indicate initial invoices sent more than 30 days after the identification of the illegal dumping violator.

<sup>8</sup> The audit randomly selected 30 invoices from the three fiscal years to ensure a significant sample size and to identify the areas of potential internal control weaknesses.

<sup>9</sup> The audit judgmentally selected a sample of the 10 highest dollar invoices and to identify the areas of potential internal control weaknesses.

## Appendix 3: FMA ANALYSIS OF UNCOLLECTIBLE ILLEGAL DUMPING CASES

Item Number	Account Number	Invoice Number	Invoice Amount	Reason Deemed Uncollectible
1	13257	858	\$792.09	<b>Missing Documentation</b>
2	13258	859	\$1,117.90	Violator Deceased
3	13322	878	\$809.90	<b>Missing Documentation</b>
4	13323	879	\$909.90	<b>Missing Documentation</b>
5	13470	942	\$1,292.90	Violator Deceased
6	13777	964	\$1,042.90	Violator Deceased
7	13571	971	\$417.90	Unable to Locate Violator
8	13669	1012	\$1,117.90	No Explanation
9	13670	1013	\$1,617.90	No Explanation
10	13883	1061	\$1,117.90	Violator Deceased
11	13784	1100	\$1,510.75	<b>Statute of Limitations</b>
12	13659	1133	\$1,300.40	Court Case Dismissed
13	13951	1137	\$1,367.90	<b>Statute of Limitations</b>
14	14159	1139	\$1,117.90	Violator Out Of State
15	14113	1192	\$1,367.90	Violator Deceased
16	14114	1193	\$1,367.90	Violator Out Of Country
17	14207	1252	\$1,117.90	Court Case Dismissed
18	14358	1330	\$1,117.90	Insufficient Evidence
19	15284	2262	\$1,117.90	Insufficient Evidence
20	15711	2523	\$1,117.90	Insufficient Evidence
21	15789	2526	\$867.90	Violator Deceased
22	15787	2535	\$1,117.90	Insufficient Evidence
23	16052	2660	\$867.90	<b>Statute of Limitations</b>
24	16004	2663	\$1,117.90	Violator Deceased
25	16007	2666	\$867.90	Insufficient Evidence
26	16044	2669	\$1,117.90	Insufficient Evidence
27	16062	2729	\$1,117.90	<b>Statute of Limitations</b>
28	16106	2732	\$1,117.90	No Explanation
29	16346	2874	\$1,117.90	Insufficient Evidence
30	16445	2944	\$1,117.90	Court Case Dismissed
31	17856	4225	\$838.03	Violator Deceased
32	17967	4232	\$838.03	<b>Statute of Limitations</b>
33	17853	4236	\$1,088.03	Violator Deceased
<b>Total</b>			<b>\$35,934.63</b>	

Note: Bolded "Reasons Deemed Uncollectible" reflect cases where FWA Management could have deemed the invoice uncollectable if the case had been closely evaluated.

## **Appendix 4: EXCERPT OF THE CITY AUDITOR OFFICE'S APRIL 2009 PERFORMANCE AUDIT OF THE PUBLIC WORKS AGENCY**

The Office's April 2009 Performance Audit of the Public Works Agency included several recommendations for PWA Management related to illegal dumping:

1. Acquire twenty (20) additional illegal dumping surveillance cameras;
2. Acquire WiFi HDTV systems and cameras in a fixed wireless network; and
3. Engage neighborhood associations to assist in illegal dumping clean-up and prevention.

At the time the audit was issued, PWA Management stated that additional staff would be required to monitor and maintain the additional cameras, download information, handle invoicing, collections, and provide small claims court and hearing officer support.

In September 2010, PWA Management issued a report updating its implementation efforts of the April 2009 Performance Audit. In its report, PWA Management unilaterally decided to drop implementation of the recommendations related to IDAP based on a decision of the Budget Office not to fund the purchase of the additional surveillance camera.

This performance audit focused on the revenue generated from the Illegal Dumping Program and found that the program's collection rate is low and has proven to be an ineffective use of staff resources. We recommend the City Administration allocate the needed resources to implement the recommendations from the performance audit of the entire PWA, as reproduced below. Given PWA Management's position that it does not have the financial resources to implement the three recommendations, this audit's recommendation #1 (see page 19) calls for PWA Management to identify cost effective alternative solutions and distinctive ways to identify violators.

The excerpt from the April 2009 performance audit is provided below.

**CITY OF OAKLAND, CALIFORNIA**

**Performance Audit of the Public Works Agency**

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### **(4) The Keep Oakland Clean and Beautiful Division Should Enhance Its Practices For Illegal Dumping Enforcement.**

In the past six years from 2002 to 2007, the approach utilized for litter enforcement has changed. Litter enforcement has transitioned from a forensic focus to a multi-faceted

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**Matrix Consulting Group**

**Page 283**

**(APPENDIX 4: PAGES 23 – 28)**

system of addressing illegal dumping. This is apparent in the data presented in the table below.

	2002	2003	2004	2005	2006	2007
<b>Number of Cases</b>	638	635	312	291	408	272
<b>Cases Dismissed</b>	129	113	77	34	36	18
<b>% Cases Dismissed</b>	20.2%	17.8%	24.7%	11.7%	8.8%	6.6%
<b>Value of Cases Billed</b>	\$615,208	\$810,927	\$280,316	\$209,127	\$252,893	\$221,758
<b>Value of Cases Dismissed</b>	\$152,994	\$134,018	\$91,322	\$40,324	\$42,696	\$14,400
<b>% of \$ Dismissed</b>	24.9%	16.5%	32.6%	19.3%	16.9%	6.5%
<b>Amount Billed by the PWA</b>	\$462,214	\$676,909	\$188,994	\$168,803	\$210,197	\$207,358
<b>Amount Collected by PWA</b>	\$54,559	\$68,007	\$23,385	\$28,114	\$34,441	\$20,417
<b>% Collected</b>	11.8%	10.0%	12.4%	16.7%	16.4%	9.8%
<b>Number of LEO's</b>	8	8	4	6	6	6
<b>Number of Cases / LEO</b>	79.8	79.4	78.0	48.5	68.0	45.3
<b>Illegal Dumping Tonnage</b>	4,006	3,826	4,100	3,726	3,791	2,608

Important points to note regarding the table are presented below.

- The number of illegal dumping cases generated by the Litter Enforcement Officers has declined by 56% from 638 in 2002 to 272 in 2007. This is the result of a conscious effort by the Division to utilize these staff for outreach and education, and not merely enforcement. This amounts to approximately five cases a week over a year's period of time.
- The number of illegal dumping cases generated by the Litter Enforcement Officers has declined by 43% per Officer from 79.8 in 2002 to 45.3 in 2007.
- The amount billed for illegal dumping by the Agency has declined by 55% from \$462,214 in 2002 to \$207,358 in 2007.
- The amount of revenue collected by the Agency has declined by 63% from \$54,559 in 2002 to \$20,417 in 2007.
- Overall, the Agency collected 12 cents on the dollar in 2002 and collected 10 cents on the dollar in 2007.
- The total tonnage collected has decreased by 35% from 4,006 tons in 2002 to 2,608 tons in 2007.

(APPENDIX 4: CONTINUED)

A total of 77% of the illegal dumping cases are tied to Oakland addresses, and the balance to other jurisdictions and other outside sources.

The Agency estimated that the Litter Enforcement Officers are able to investigate and tie to the source about 3% to 5% of the total tonnage collected. The cost of collecting illegal dumping material is significant; it approximates \$5.1 million. A total of 41 staff members are dedicated to illegal dumping removal and disposal.

The results of the litter enforcement for illegal dumping strongly suggest the need to develop a proactive approach that increases the risk to offenders of illegal dumping. The recommended approaches to enhance the prevention and detection of illegal dumping are presented below.

- **The Division should expand the use of surveillance cameras.** The State / Local Illegal Dumping Enforcement Task Force submitted a number of recommendations in January 2007 to the California Integrated Waste Management Board to address illegal dumping in a systematic manner, and not piecemeal. One of the recommendations made by the Task Force was in regards to the use and application of surveillance cameras. The Task Force noted “surveillance equipment, including motion-activated digital cameras, continuous recording or motion-activated video cameras, and sound recording machines are useful enforcement tools in the enforcement of illegal dumping statutes and ordinances. The sophistication and reliability of surveillance equipment has increased to the level that one piece of equipment can now record pictures simultaneously of vehicle drivers, vehicle license plates, and actual illegal dumping, and the information can either be immediately sent through telemetry to a central location or it can be recorded on an internal or external computer and downloaded at the operator’s convenience. The purchase costs of surveillance equipment starts around \$4,000 per monitor, with multi-functional equipment priced higher.”

The Division has acquired two surveillance cameras that are located in West Oakland and East Oakland. The cameras can be monitored daily from a Litter Enforcement Officer’s desk, and the cameras have the capability to view day and night footage and zoom in from as far as one block away, allowing clear views of the license plate and general descriptions of individuals. These cameras are expensive; the two cameras purchased in July 2007 cost \$19,000 each.



There are, however, almost 80 “hot spots” that are frequent locations of illegal dumping. The two cameras only provide the opportunity to observe 5% of these “hot spots.”

The Division should utilize more cost effective approaches to the acquisition and use of cameras. This should include the following:

- Internet-based (Wifi) HDTV systems (e.g., IQeye) that cost about \$3,000. The Massachusetts Department of Environmental Protection started with standard CCTV equipment, but ran into limitations in terms of power and image resolution. Most locations attractive for illegal dumping were dark, out of the way places, without ready access to power. The Massachusetts Department of Environmental Protection over time has developed a number of successful set-ups using IQeye megapixel cameras on solar or marine battery power with day/night capabilities, so the camera can effectively record the dumping and also capture the license plate information to send out fines and/or aid in prosecution. The emerging “model” for successful covert surveillance involved IQeye megapixel cameras, power from flexible solar panels, and cameras housed in generic, gray electrical boxes mounted to poles. The Massachusetts Department of Environmental Protection wanted the system of cameras to run efficiently, but also to be nimble, so that the cameras can be moved easily to other locations with illegal dumping. With Wifi technology, staff can sit in their cars and download video without disturbing the cameras and drawing attention to the on-going surveillance. Other examples of the effective deployment of these cameras are presented below.
  - The City of Louisville, Kentucky uses wireless-based cameras to deter illegal trash dumping. To reduce and deter the illegal dumping problem, the city installed a wireless-based camera system for two-three weeks at a chronic dumping location, followed by a look-a-like dummy unit. Then the wireless-based camera is moved to a different location. Code Enforcement noted that neighborhoods want wireless-based cameras for their alley or street. Public acceptance of the wireless-based cameras program was excellent. The city has set up a code enforcement board and is now issuing \$500 citations to offenders getting caught by the cameras illegally dumping.
  - Houston Police Department has made it a priority to clamp down on graffiti, illegal trash dumping and other anti-social behaviors. Dozens of wireless-based cameras are used to deter illegal trash dumping. The wireless-based cameras are installed in trouble spots around the city where tires, couches, mattresses, and other household items were being dumped. The illegal dumping has been

(APPENDIX 4: CONTINUED)



reported to have declined dramatically since the wireless-based cameras have been deployed. The tactics utilized include installing a surveillance system and a warning sign.

- The city of Pittsburg, CA won The National League of Cities Municipal Excellence award for their illegal trash dumping program. Pittsburg's anti-dumping program involves signage, school programs, Code Enforcement, and the use of wireless-based cameras. For example, in one trouble spot--a remote cul de sac--trucks and dumpsters were required weekly to clean up illegally dumped items. A wireless-based camera was installed and the dumping stopped. As a result of this program, the city has reported a major decline in illegal dumping, graffiti, litter and blight in the community. One measure of success: the city has reassigned two employees to other tasks.
- Remote 12-battery volt systems such as Digital Guardian 2000 that cost approximately \$10,000.
- The experience of the Massachusetts Department of Environmental Protection is that small day / night bullet cameras are best, with SuperHAD or Exview CCD chips – 1/3 inch being the most common. Two cameras are needed: one for wideview and one for license plate capture. At least 480 lines of resolution are needed for color and 500 or more lines for black and white cameras. Black and white cameras are better at night. The cameras need 0.01 lux or less to effectively see in the dark. Near infrared night illuminators can help.
- Recorders are necessary. These should consist of 250 GB hard disk at 10 frames per second to provide the capacity for six days on endless loop. A personal computer can also be used with PCI capture card, or a compact flashcard recorder for remote sites on a 12-volt battery.
- Alarm triggers are required to tell the recorder to activate to record just the action. Wireless is better e.g., Reporter or Dakota Alert PIR's.
- At installation, the staff should check the view using a test car and license plate, and the camera should be camouflaged or placed in an electrical box.

The Division should be more aggressive in the use and application of cameras focusing on the use of Internet-based HDTV systems (e.g., IQeye).

**Recommendation #163: The Keep Oakland Clean and Beautiful Division should acquire twenty (20) additional illegal dumping surveillance cameras.**

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**Recommendation #164: The Keep Oakland Clean and Beautiful Division should acquire Internet-based (Wifi) HDTV systems or wireless IP cameras in a fixed wireless network.**

- **The Keep Oakland Clean and Beautiful Division should engage the neighborhood associations in Oakland to clean up and to prevent illegal dumping.** There are numerous neighborhood associations in Oakland. The Division should engage these associations to actively work on illegal dumping. This could include the provision of mini-grants to involve the community in combating illegal dumping and community clean-up days in which the Division could provide dumpsters at no cost to the association for collection and disposal of bulk waste.

**Recommendation #165: The Keep Oakland Clean and Beautiful Division should engage the neighborhood associations in Oakland to assist in the clean up and prevention of illegal dumping.**

- (5) The Keep Oakland Clean And Beautiful Division Should “Pilot Test” The Use Of Surveillance Cameras For Detection and Apprehension of Graffiti Taggers.**

At present, the Division dedicates four full-time staff to graffiti abatement. Each operates as a 1-person crew. Each of these four staff is assigned a vehicle with a spray rig – two with pickup trucks and two with vans. Each is assigned a geographical area that they are responsible for covering – east, west, central, and north. The staff responds proactively to “hot spots” and to complaints. There are an average of 15 graffiti complaints each day.

A number of cities are now implementing surveillance cameras to detect and to prevent graffiti. These include such cities as Los Angeles, Denver, Pittsburgh, etc., are beginning to use surveillance cameras such as FlashCAM-880's to catch graffiti taggers. One Southern California city – Redondo Beach - using these surveillance cameras reported a conviction rate of 100%. The high-resolution pictures from the FlashCAM-880 are used to ID suspects.

## Appendix 5: FMA CITYWIDE COLLECTIONS

1. Reviewing cases referred by PWA to ensure they meet legal requirements to obtain judgments. The review involves identifying and locating the debtor through skip tracing techniques. If the debtors can be found, collections next seek to identify potential assets to attach such as wages, real estate and bank accounts.
2. Preparing court filings and calendaring the case, which typically takes several weeks.
3. Presenting case to a judge, and assuming no continuances, obtaining a judgment.
4. Waiting 30 days before acting upon judgment to avoid triggering appeals.
5. Reviewing step 1 documentation detailing assets and attempting to attach by means of filings with the County Sheriff of record or County Recorder.
6. Waiting for assets to be recovered which often times only partial recovery due to lack of asset value or inconsistent employment. Steps 5 and 6 must be repeated with most cases until full debt is recovered.
7. If debt is not paid after 10 years, the judgment is renewed and assets' tracking continues for attachment. If no viable assets, the case is written off.

## Appendix 6: STAFF REPORT ON THE ILLEGAL DUMPING PROGRAM (JUNE 26, 2007)

CITY OF OAKLAND  
AGENDA REPORT  
2007 JUNE 19 PM 8:25

TO: Office of the City Administrator  
ATTN: Deborah Edgerly  
FROM: Public Works Agency  
DATE: June 26, 2007

RE: **Supplemental Report from the Public Works Agency Regarding the Litter Enforcement Unit of the Public Works Agency Detailing Staffing, Areas of Focus, Investigation of Illegal Dumping, Fines Assessed, Abandoned Vehicles Cited and Towed, and Education and Outreach Efforts in the Community**

### SUMMARY

On April 24, 2007, staff presented to the Public Works Committee an informational report regarding the Litter Enforcement Unit of the Public Works Agency detailing staffing, areas of focus, investigation of illegal dumping, fines assessed, abandoned vehicles cited and towed, and education and outreach efforts in the community. There were a number of questions and requests made by the Committee. This supplemental report responds to the Committee's questions and requests for clarification.

### Responses to Questions

1. Provide additional information on the number of people cited each year for illegally dumped items, statistics for the period 2002 through 2006, number of fines collected, balances, and outstanding amounts.

PWA CASE ACTIVITY: ILLEGAL DUMPING						
Calendar Year	2002	2003	2004	2005	2006	Totals
No. of Cases	638	635	312	291	408	2284
Cases Dismissed	129	113	77	34	36	389
Total Amount Owed	\$615,208	\$810,927	\$280,316	\$209,127	\$252,893	\$2,168,470
Value of Dismissed Cases	\$152,994	\$134,018	\$91,322	\$40,324	\$42,696	\$461,354
Billed by PWA	\$462,214	\$676,909	\$188,994	\$168,803	\$210,197	\$1,707,116
Collected by PWA	\$54,559	\$68,007	\$23,385	\$28,114	\$34,441	\$208,506
Promissory Notes	\$25,625	\$29,343	\$15,267	\$32,329	\$21,282	\$123,845
Outstanding Balance						\$681,675
Average Amount of Fine Per Person	\$964	\$1,277	\$898	\$719	\$619	\$949

Item: \_\_\_\_\_  
Public Works Committee  
June 26, 2007



**2. Why has the outstanding balance not been collected?**

The balance consists of offenders who were cited, but do not own property upon which the City may levy. In addition, these are cases that are in various stages of the collection process, i.e. appeals or 30–60 day notices.

**3. Provide information on the FMA collection process and the status of collections.**

The City's FMA collections process involves the following steps:

- 1) Review cases referred to ensure they meet legal requirements to obtain judgments. The review involves identifying and locating debtors through skip tracing techniques. If the debtors can be found, collections next seeks to identify potential assets to attach such as wages, real estate, bank accounts, etc. They must be certain that the debtor is not judgment proof.
- 2) Prepare court filings and calendar the case, which typically takes weeks.
- 3) Present case to judge, and assuming no continuances, obtains judgment (or not).
- 4) Wait 30 days before acting upon judgment to avoid triggering appeals.
- 5) Review step 1 documentation detailing assets and attempt to attach via filings with the Sheriff of record or County Recorder.
- 6) Wait for assets to be recovered—often times only partial recovery due to lack of asset value or inconsistent employment. Steps 5 and 6 must be repeated with most cases until full debt is recovered.
- 7) If debt not paid after 10 years, renew the judgment and continue to track assets for attachment. If no viable assets, case is written off.

It should be noted that 75% of the outstanding illegal dumping debt referred to Citywide Collections is recent (see table below). It should also be noted that illegal dumping cases are among the least viable in terms of collectability. If these debts can be successfully collected, they typically take four years or longer to be paid. Annual recovery revenue is relatively small, ranging between \$7,500 to \$22,000.

In 2004, the Finance and Management Agency, Public Works Agency (PWA) and the Office of the City Attorney launched a collaborative effort to re-design processes to improve the viability of accounts referred to Citywide Collections. Additionally, Citywide Collections agreed to accept a large amount of older, PWA Promissory Note cases that were set up prior to the process improvements developed in 2006, hence the increase in outstanding referrals. In order to process the Promissory Note cases, Citywide Collections must review the viability of the Promissory Note cases before commencing legal action. This process includes researching all aspects of the case and the debtor. Lastly, if the case is deemed viable and debtor is not judgment proof, collecting debts upon receiving judgments is a slow process which can take many years to recover full or partial payment.

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Explanation of the FMA collections history/status appears in the table below:

FMA - REVENUE DIVISION ACTIVITY: ILLEGAL DUMPING						
Calendar Year	2002	2003	2004	2005	2006	Totals
Number of Cases Referred	96	58	24	119	317	614
Referrals Paid	34	26	12	19	38	129
Referrals Deemed Uncollectible	41	42	5	7	12	107
Judgments Awarded	7	3	5	19	12	46
Debt Collected	\$14,516	\$13,125	\$7,597	\$11,558	\$22,317	\$69,113
Uncollected Debt	\$39,037	\$83,567	\$25,553	\$162,195	\$313,624	\$623,977
<b>Note:</b> Metrics above do not correlate to the year the case was referred, only to the actual value of payments, judgments, etc., received during the calendar year. Our current system does not provide management the capability of measuring productivity against the year the case was referred. We can only measure for activity during a specific period. For example, the 19 referrals paid in 2005 could be for cases referred to Collections during any one of the previous years.						

**4. Two years ago, the City Council approved the purchase of new software for the Finance and Management Agency to facilitate the collection process. Provide information regarding purchase and implementation of that software.**

On July 11, 2006, the City Council authorized the Finance and Management Agency (FMA) to negotiate a contract for the purchase of new software to update the systems and databases used for Citywide billing and collecting local taxes and fees. The new system will improve efficiencies and enhance the City's ability to increase overall revenues. The new system will also replace the legacy system used for administering delinquent collection accounts referred by other City departments (e.g., illegal dumping).

Staff expected to complete contract negotiations prior to the 2007 tax renewal season. However, due to the complex negotiation requirements and FMA's competing inter-agency priorities, contract negotiations were only recently finalized and system implementation is scheduled to start around the first of July 2007.

The new system should become operational to support the 2008 tax renewal season. The vendor, Progressive Solutions, Inc., has a track record of quick and successful system installations, and since July 2006 has successfully negotiated and implemented this system for the cities of Santa Barbara, Glendale, Albany, Merced, Culver City, Palmdale, National City, Colton, Tulare, Yucaipa, as well as Hilton Head, S.C.

**5. What percentage of illegally dumped material contains evidence to tie it to the source?**

Illegally dumped material that is tied to a source usually comes from household garbage. Household garbage weighs a lot less than appliances, tires, and construction debris that usually

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lack evidence tying it to a source. Based on the total tonnage collected, it is estimated that 3–5% can be tied to a source.

→ **6. Number of repeat offenders and action taken against them.**

There were sixty repeat offenders who were cited twice, and nine were cited three times. The Administrative Fines shown below increase with each citation. The total fine is made up of the Administrative Fine, the Illegal Dumping Fine, and the actual cost to remove and dispose of the debris. PWA is working with OPD to identify options to pursue repeat offenders.

Administrative Fines

First offense	-	\$750
Second offense	-	\$1,000
Third offense	-	\$1,500

Illegal Dumping Fines

0 – 1.5 tons	=	\$350
1.5 – 4 tons	=	\$500
4 tons and up	=	\$750

Cleanup and Disposal Fee

Flat Fee	=	\$350
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**7. What percentage of offenders is from Oakland versus outside jurisdictions?**

Of the 2,284 illegal dumping cases that have been opened between 2002 and 2006, 77% of the cases are tied to Oakland addresses, and the balance (23%) is from other jurisdictions.

Outside jurisdictions:

San Leandro:	72 cases	(3%)
Hayward:	54 cases	(2%)
San Francisco:	50 cases	(2%)
Berkeley:	40 cases	(2%)
Alameda:	39 cases	(2%)
Richmond:	30 cases	(1.5%)
Emeryville:	14 cases	(.5%)
Union City:	12 cases	(.5%)
Vallejo:	12 cases	(.5%)

The remaining 9% is a combination of various outside sources.

**8. Describe City protocol if a caller provides license plate information for someone seen illegally dumping debris. How is the information used, and how often has this occurred?**

We encourage members of the community who witness illegal dumping to report license plate information and a description of the vehicle. The following describes our protocol: Calls are

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placed to the PWA Call Center at (510) 615-5566 and from there dispatched to the appropriate supervisor. The information is then forwarded to a LEO, who investigates the incident. At a minimum, a warning letter will be sent to the registered owner. If there is enough evidence, the illegal dumper will be fined.

**9. What is the amount of illegally dumped tonnage collected each year?**

YEAR	TONS	NUMBER OF LEOs
2002	4006	8
2003	3826	8
2004	4100	4
2005	3726	6
2006	3791	6

These tonnage amounts are based on the tonnage tracking software system that is operated and maintained by Waste Management of Alameda County, and reported to the City of Oakland monthly. The weight and contents of each vehicle are recorded using a coding system, before entering the Davis Street Transfer Station.

An average of 3,900 tons of illegally dumped debris is collected and disposed of each year. This is equivalent to the weight of 1,880 Crown Victoria automobiles, and is enough to fill up 163 40-foot-long landfill trailers. Stretched end-to-end, the debris would cover roughly twenty-one football fields.

**10. What does it cost the City each year to remove illegal dumping from City streets, including disposal costs?**

Approximately 41 FTE are assigned to illegal dumping removal and disposal.

Personnel costs	\$4,106,911
O&M	\$384,309
Equipment	\$216,062
Disposal fees	\$429,000
<b>Total annual cost</b>	<b>\$5,136,282</b>

**11. What is the number of haulers caught as a result of forensic investigation, versus other means?**

When forensic investigation is successful, it turns up evidence of the owner of the garbage (suspect), but not of the hauler. When we notify the suspect, that individual sometimes provides proof of hiring a hauler. The illegally dumping case is always filed against the suspect. Because of this, historically, the hauler's name was not recorded in the database. Now, however, our database has been updated to record haulers. There will still always be a case against the suspect for illegally dumping, but now we can also file a case against the hauler for illegally hauling.

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It is possible to catch haulers through other means, such as sting operations. During joint PWA/OPD sting operations a total of twenty-eight haulers were cited.

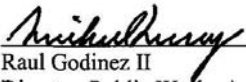
**12. Why are SDS-1 statistics so much higher than for the other SDS areas?**

The LEO assigned to work in this area was extremely effective and motivated. In addition, this employee established a strong working relationship with OPD to receive additional training and approval to enforce a wide variety of vehicle codes. The department recognized the work of this employee and worked with OPD to mirror and expand enforcement authority of other LEOs.

**ACTION REQUESTED OF THE CITY COUNCIL**

No action is requested, since this is an informational report.

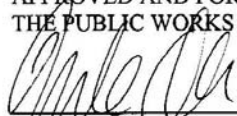
Respectfully submitted,

*for*   
Raul Godinez II  
Director, Public Works Agency

Reviewed by:  
Brooke A. Levin, Assistant Director

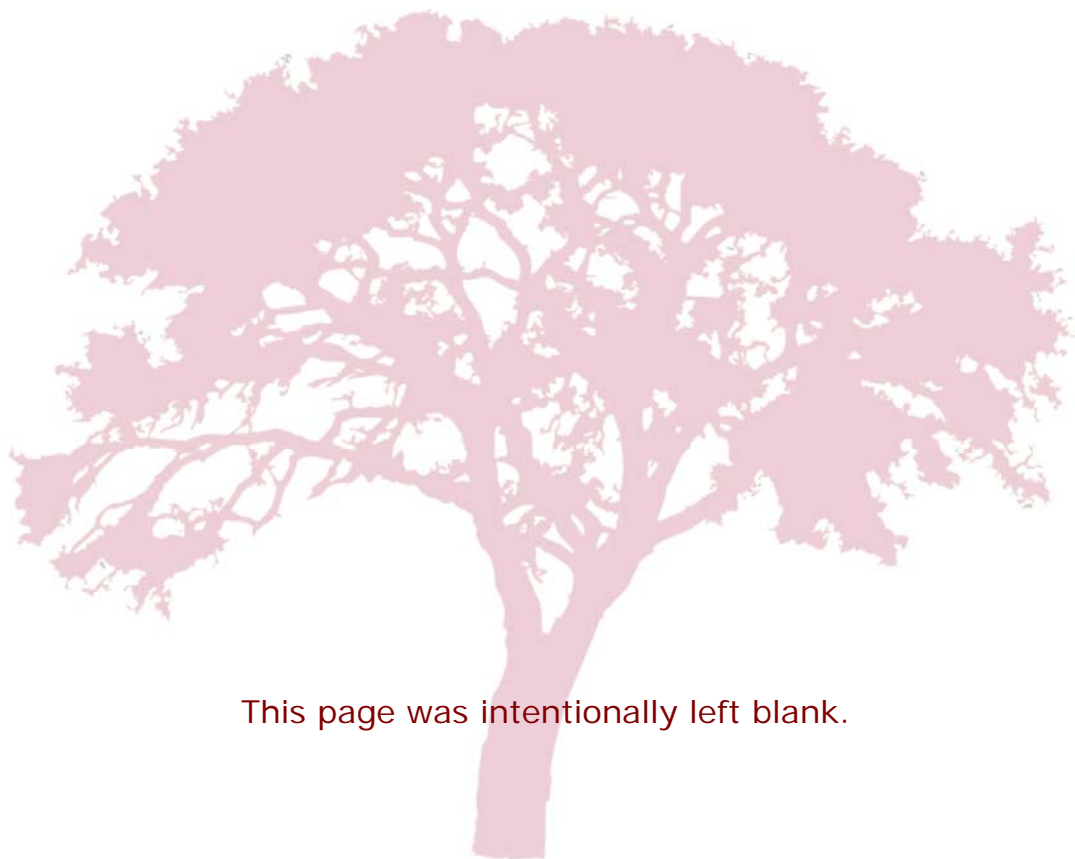
Prepared by:  
David Ferguson, Public Works Operations Manager  
Keep Oakland Clean and Beautiful Division

APPROVED AND FORWARDED TO  
THE PUBLIC WORKS COMMITTEE:

  
Office of the City Administrator

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(APPENDIX 6: END)



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Office of the City Administrator

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October 27, 2010

Ms. Courtney Ruby  
City Auditor  
City of Oakland  
One Frank H. Ogawa Plaza, 4<sup>th</sup> Floor  
Oakland, California 94612

**RE: Response to the PWA illegal Dumping Accounts Receivable Audit**

Dear Courtney:

This letter is in response to your audit of the Public Works Agency's (PWA) process for billing perpetrators suspected of illegal dumping.

While we are pleased that:

- The audit found no fraud, illegal acts or noncompliance issues;
- The audit questioned the cost-effectiveness of collection efforts recognizing that citations were small (on the order of \$1,000) and collection efforts costly and difficult; and
- The audit acknowledged that even though 70% of the bills were timely mailed (within 30 days), collection is extremely problematic given that over 1/3 of the people billed are either deceased or moved out of state;

We take exception with the audit's findings and conclusions:

1

- The audit cites a low collection rate for illegal dumping citations.

This is an **irrelevant and misplaced "finding"** given that: a) the citation process was never intended to be cost-covering, but rather to serve as a deterrent; and b) the nature of the citation is such that most citations will by definition go uncollected (e.g., identified wrongdoers are dead, moved, or difficult to prove culpability).

Litter Enforcement Officers sift through piles of garbage to identify offenders. When at least three pieces of information containing the name and address of the offender are found, PWA issues citations to the people identified. However, many of the people identified are often deceased, no longer at their old address, or able to convince a judge of their innocence.

**Note:** The reference numbers in the left margin correspond to the reference numbers in the next section of the audit report: City Auditor's Response and Summary of Actions Necessary to Close the Report.

For the years audited, the process generated some \$30,000 per year in citation revenue at an annual cost of approximately \$300,000. Clearly the **process has not been cost effective, nor was it intended to be**. This was pointed out on multiple occasions to the City Auditor's staff, and yet it remains in final draft of the audit.

2

- The audit makes a leap to suggest that because the collection rate is low, then somehow "internal controls" are missing.

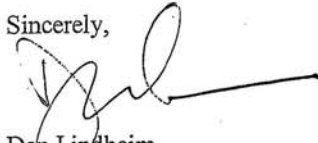
Given that the "finding" on the collection rate is baseless, so is the related finding on internal controls. **Internal controls have been in place and continue to exist** – including written policies and fraud prevention. Again, the City Auditor's staff was informed, was provided copies of relevant documents, and yet still misunderstood the reality of the program.

Management believes in the continuing need for illegal dumping deterrence. That said, the Litter Enforcement Program was never meant to be cost-covering, nor could it be. To reduce the cost of the program, the number of Litter Enforcement Officers has now been decreased to two, and the focus has shifted to neighborhood education programs.

Addressing the vexing problem of illegal dumping is a continuing priority. However, making misplaced "findings" on collection rates and policies to further collection, when collection is by definition not cost-effective, is inappropriate and makes no contribution to addressing the problem nor to the city.

Our detailed response to the audit is attached. PWA staff will continue to be available to meet with your office to discuss items you may want to change prior to release of the audit.

Sincerely,



Dan Lindheim  
City Administrator



## **RESPONSE TO THE PUBLIC WORKS AGENCY ILLEGAL DUMPING ACCOUNTS RECEIVABLE AUDIT**

### **Background**

The Illegal Dumping Abatement Program was established in 2002 to try a creative and innovative approach to addressing the problem of illegal dumping on the streets of Oakland. The plan to develop the Litter Enforcement Officers (LEOs) was a direct outcome of the 1998-2000 Inter-agency Anti-Grime Task Force. When the Litter Enforcement Unit was established in 2002, the focus was to eliminate chronic illegal dumpsites through deployment of forensic investigative techniques, enforcement and fines, monitoring/surveillance, public outreach and education. The initial staffing included eight LEOs, one Public Service Representative, and a dedicated supervisor. Half of the LEOs were laid off in 2004. In 2005, two of the positions were restored. In 2009, three positions were eliminated. At present there are two filled LEO positions plus one vacancy.

The LEO's are one of only a few programs in California that conduct forensic investigations of dumped materials to determine who may have dumped. When illegal dumping occurs, and there appears to be sufficient evidence, staff will establish a case and impose fees on the violator. This is where the PWA accounts receivable function begins. Collection of these invoices is an extreme challenge, as invoices are not associated with real property and therefore the actions are solely targeted toward the people whose identity is identified in the debris.

### **Response to Specific Audit Recommendations.**

**Recommendation #1.** *"Evaluate the effectiveness of its multi-pronged approach to addressing deterrence of illegal dumping, which includes community outreach, investigation, and enforcement. Its evaluation should consider cost effective alternatives and distinctive ways to identify violators and deter illegal dumping, as discussed and recommended in the April 2009 Performance Audit."*

**Response.** The Agency's position has not changed. **It is simply not possible, with this particular program, to increase the cost and at the same time improve cost effectiveness.**

As PWA responded to the 2009 Performance Audit: "Surveillance of environmental crimes such as illegal dumping is being conducted by several cities, counties and special districts throughout the state and country including Oakland. All cameras, whether video or digital have limitations and challenges. If the cameras are effective they can sometimes capture license plates of illegal dumpers. This information may result in invoicing owners of the subject vehicles, and a small claims action if not paid. Based on the current staffing level and workload, additional staff would be required to monitor and maintain cameras, download information, handle invoicing, collections, and provide small claims court and hearing officer support."

At the same time, PWA is continually evaluating the effectiveness of its programs and will continue to look for new ways to address this issue. The number of LEO's has already been

reduced to two, plus one vacant position. Use of the LEO's has shifted from fining people to educating the community.

**Recommendation #2.** *"Implement a consistent invoicing and follow-up procedure to ensure that PWA provides initial invoices to illegal dumping violators in a timely manner."*

**Response.** Appendix 1 of the audit shows that PWA issued 70% of initial invoices within 30 days. We question whether sending notices more quickly to dead people or people who have moved will increase cost recovery.

**Recommendation #3.** *"Develop formal fraud detection and prevention policies and procedures, including providing staff with guidelines for reporting potential fraud in the event that it occurs."*

**Response.** We are pleased that the audit found no evidence of fraud or malfeasance. PWA staff already attends the annual mandatory cash handling / fraud prevention training provided by FMA. Writing new policies when training and guidelines are available from FMA is not cost effective.

**Recommendation #4.** *"Develop policies and procedures regarding reviewing and monitoring illegal dumping cases to ensure all required documentation necessary to pursue a case is in the file and dated within the statute of limitation prior to pursuing the case."*

**Response.** If this program is continued, we will collaborate with FMA and the City Attorney's office to solidify informal agreements on criteria and what types of documents provide credible evidence prior to pursuing a case. These criteria change depending on rulings from small claims judges.

**Recommendation #5.** *"Direct PWA Management and FMA Management to conduct cost-benefit analysis to determine whether or not the three-tiered approach with PWA Management, FMA-AR Unit and FMA Citywide Collections is the most effective and efficient use of resources to collect IDAP invoices."*

**Response.** The current process is consistent with the handling of other receivables. The issue here is not the process, but rather the nature of the activities, subject to billing and the collectability of the invoices. This is attributable to the fact that the majority of the invoices have to be dismissed due to inability to locate the violator, or the violator is deceased. We feel that a cost-benefit analysis cannot be used to measure the success of a program designed to deter illegal activities such as illegal dumping.



**Recommendation #6.** *"Allocate the needed resources to implement the recommendation from the April 2009 PWA Performance Audit."*

**Response.** The Agency's position on this recommendation has not changed (see 1 above). Importantly, installing surveillance cameras for added enforcement would actually increase the uncollectable accounts receivables - which would go against the other recommendation of this audit.

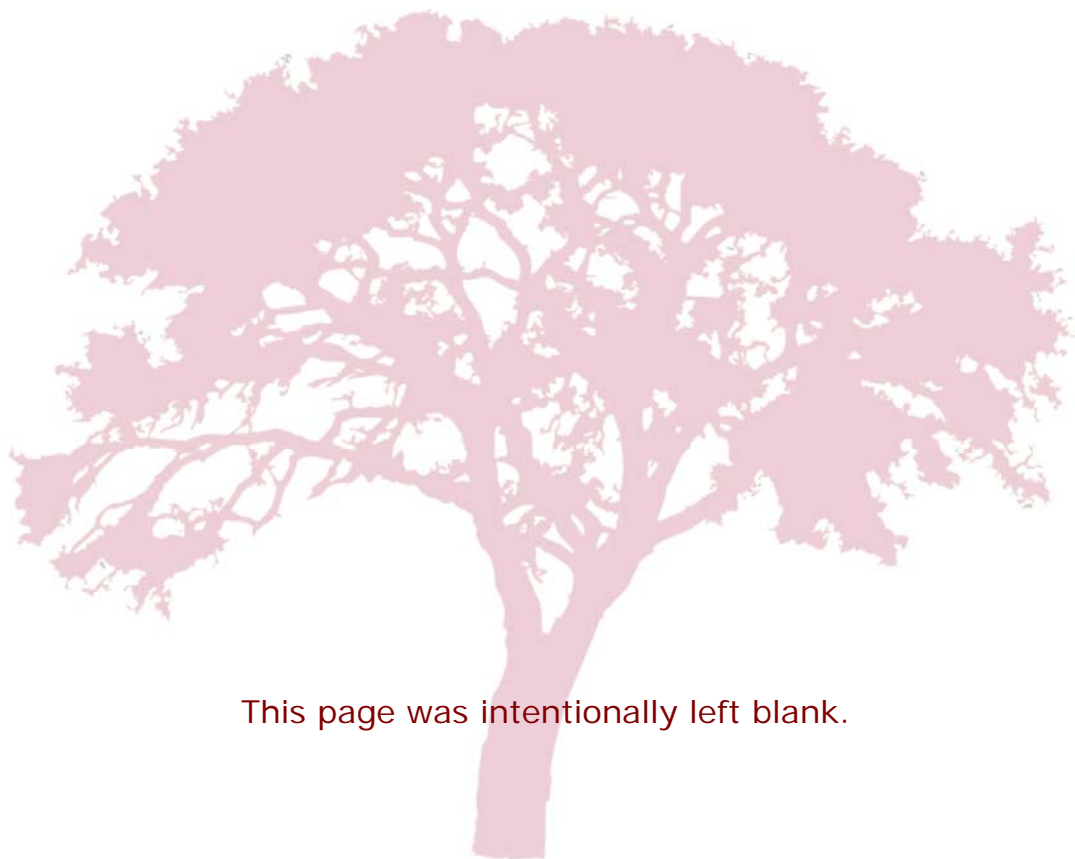
**Recommendation #7.** *"FMA Management reviews its internal control over accounts receivable to ensure that:*

- *Accurate accounts receivable aging reports are prepared systematically and timely.*
- *Periodic estimates are made of uncollectible accounts receivable balances with such estimates timely reported to management.*
- *A clear allowance for doubtful accounts is established to ensure that financial records properly reflect the amount of accounts receivables that management estimates will be uncollectible.*
- *Establish a policy regarding the length of time the receivable and the doubtful allowance account will remain on the books before being removed completely.*
- *Proper write-off, conversion and settlement or forgiveness of delinquent accounts is assured."*

**Response.** The City believes that this recommendation is **irrelevant and baseless**. The City's internal controls and policy on accounts receivable are sufficient, and carefully formulated to ensure that the City is in compliance with Generally Accepted Accounting Principles (GAAP). FMA has an established policy and procedures for an allowance for doubtful accounts. External auditors review and audit allowances for doubtful accounts on an annual basis, and have not raised any concerns.

### **Conclusion.**

Illegal dumping remains a serious problem throughout the City of Oakland, as in most major cities. Oakland's Public Works Agency has taken a proactive role in removing items which have been dumped and in seeking ways to minimize such dumping. We believe the Illegal Dumping Abatement Program is a necessary deterrent to illegal dumping, although it will not cure the entire problem. PWA will continue to work with affected communities to educate people, look for alternative methods of disposal, and minimize the impact of illegal dumping.



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## OFFICE OF THE CITY AUDITOR'S RESPONSE

We provided a draft audit report to the City Administration (Administration) for review and comment in compliance with Generally Accepted Government Auditing Standards (GAGAS). The Administration's comments and details regarding the actions it has taken or plans to implement in response to the audit's recommendations have been included in this report. These comments comprise responses from the City Administrator's Office and PWA and FMA Management.

Two areas highlighted in the Administration's response require clarification:

- Audit findings regarding the collection rate for illegal dumping citations
- Deficiencies in the internal controls for IDAP accounts receivables.

The reference numbers in the left margin below correspond directly to the reference numbers in the Administration's response. The remaining balance of the Office of the City Auditor's comments focuses on the disposition of each recommendation.

1

### Collection Rate for Illegal Dumping Citations

Throughout its response, the Administration implies that the audit contains "misplaced" findings regarding the illegal dumping accounts receivable collection rate and states that they are not meant to be a revenue stream for the City. These statements are misleading and suggest that the findings are based exclusively on the low collection rate, and miss the audit report's points on why the Administration needs to evaluate its multi-pronged approach, which includes citations for illegal dumping.

The audit provides a larger context for the Administration to understand that pursuing collection for hard to collect or uncollectible accounts receivables consumes City resources that fail to result in an adequate return-on-investment. The audit identified \$851,535 billed during CYs 2006-2009 and an average 11 percent collection rate (pg 11). Given these findings, the City can anticipate writing off a significant amount in uncollectible IDAP accounts receivables.

In its response, the Administration highlights that the process of invoicing illegal dumping violators "has not been cost effective, nor was it intended to be." The effect of PWA Management's program strategy approach for deterrence has resulted in a backlog of accounts receivables for FMA Management to manage. In an austere budget environment, the Administration must be aware that IDAP accounts receivables entered into the City's financial system are anticipated revenue, regardless of the deterrence intentions of PWA Management for illegal dumping violators. Further, valuable staff resources must be used to enter, monitor, and write off uncollectible invoices.

With IDAP accounts receivables representing 40 percent of the City's centralized FMA-AR Unit's uncollected invoices and annual IDAP costs of approximately \$5 million, the audit report recommends that PWA Management consider alternative solutions to deter illegal dumping. Additionally, the Administration must evaluate the effectiveness of using scarce staff resources for collection of hard to collect illegal dumping invoices. Some municipalities have found successful ways to deter illegal dumping without impacting the accounts receivable

	<p>system. An example is a municipality issues warning letters with citations as a last resort.</p>
<b>Internal Controls</b>	<p>In its response, the Administration claims that its internal controls for IDAP accounts receivables are “in place and continue to exist.” However, the results of the audit illustrated several flaws in the internal control system including:</p> <ul style="list-style-type: none"> <li>• Inefficient and ineffective use of staff time on hard to collect and uncollectible invoices for PWA staff as well as the City's centralized accounts receivables and collections units.</li> <li>• Lack of comprehensive policies and procedures for collecting IDAP accounts receivables prior to 2008.</li> <li>• PWA staff did not consistently send initial illegal dumping invoices in a timely manner.</li> <li>• PWA Management does not maintain guidelines on how to detect and report fraud to management in the event that it occurs.</li> <li>• Sufficient documentation to pursue collection efforts was not always maintained and PWA Management could not provide documentation supporting that an allowance for doubtful accounts was established and uncollectible accounts receivables for illegal dumping remain on the City's books.</li> </ul> <p>Internal controls should be designed to provide reasonable assurance regarding the achievement of objectives in the following categories:</p> <ol style="list-style-type: none"> <li>1. Effectiveness and efficiency of operations,</li> <li>2. Reliability of financial reporting, and</li> <li>3. Compliance with applicable laws and regulations.</li> </ol> <p>The audit found internal control deficiencies in two of the three categories.</p> <p>In conclusion, the intent of the audit is to provide the Administration with recommendations to strengthen its internal control weaknesses regarding its illegal dumping accounts receivable system. The audit does not diminish the merits of the illegal dumping program; however it makes recommendations to address the weaknesses in the program's accounts receivable system and calls into question the cost effectiveness of the program's approach to deterrence through hard to collect accounts receivables.</p>

## SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

The "Response and Summary of Actions Necessary to Close the Report" provides our analysis of the City Administrator's Office, PWA Management, and FMA Management's comments and proposed actions required to close the report. The status of each of the seven recommendations at the time of publication for this report is unresolved or resolved.

**Unresolved Status:** indicates no agreement on the recommendation or the proposed corrective action. Implementation of proposed corrective action is directed in the City Auditor's Response and Summary of Actions Necessary to Close the Report.

**Resolved Status:** indicates agreement on the recommendation and the proposed corrective action. Implementation of the proposed corrective action forthcoming from the auditee.

Recommendation #1	<p><b>Unresolved</b> – PWA Management disagrees with this recommendation and stated "it is not possible to increase the cost and at the same time improve effectiveness." However, implementing this recommendation does not entail increasing cost. The recommendation focuses on Management taking action to evaluate a strategy that is not cost effective by considering cost-effective alternatives and other distinctive ways to identify violators and increase deterrence of illegal dumping.</p> <p><b>To close this recommendation, PWA Management should evaluate the effectiveness of its multi-pronged approach to deterring illegal dumping, including community outreach, investigation, and enforcement. Its evaluation should consider cost effective alternatives and other distinctive ways to identify violators and deter illegal dumping, such as options discussed and recommended in the April 2009 PWA Performance Audit.</b></p> <p><b>PWA Management should provide this analysis to the Office of the City Auditor by June 30, 2011.</b></p>
Recommendation #2	<p><b>Unresolved</b> – PWA Management disagrees with this recommendation and states the audit shows that PWA issued 70% of initial invoices within 30 days. This statement is misleading. The audit shows that 40% of the sample invoices tested during the audit were sent more than 30 days after the illegal dumping violator had been identified. Additionally, consistent and timely invoices being provided to illegal dumping violators is an essential step in a proper collections process. If invoices are not provided to violators timely and consistently, revenue from accounts receivable is at risk of not being collected.</p> <p><b>To close this recommendation PWA Management should revise its policies and procedures to include a requirement that initial invoices must be sent to illegal dumping violators within 30 days. In addition, PWA Management should implement a follow-up procedure to ensure that the invoices are sent timely.</b></p> <p><b>PWA Management should provide the revised policy and procedure to the Office of the City Auditor by June 30, 2011.</b></p>

Recommendation #3	<p><b>Unresolved</b> – PWA Management disagrees with the recommendation based on the fact that PWA staff attends annual mandatory cash handling/fraud prevention training provided by FMA. Further, it states that “writing new policies when training and guidelines are available from FMA is not cost effective.” While we commend PWA for attending the annual training, we recognize that training is a supplement to formal written policies and procedures. The absence of formal policies and procedures outlining fraud prevention and detection methods leads to a greater risk that staff may not be aware of Management’s required procedures to prevent or detect fraud in the accounts receivable process.</p> <p><b>To close the recommendation PWA Management should provide its newly drafted formal policies and procedures outlining fraud prevention and detection methods to the Office of the City Auditor by June 30, 2011.</b></p>
Recommendation #4	<p><b>Resolved</b> – PWA Management agrees with the recommendation stating it would collaborate with FMA and the City Attorney’s Office to solidify agreements on criteria and the types of documents needed as credible evidence prior to pursuing an illegal dumping case.</p> <p><b>To close the recommendation PWA Management should provide the list of agreements made with FMA and the City Attorney’s Office regarding the criteria and required documentation needed to pursue an illegal dumping case. This documentation should be provided to the Office of the City Auditor by June 30, 2011.</b></p>
Recommendation #5	<p><b>Unresolved</b> – The Administration disagrees with the recommendation to direct PWA Management and FMA Management to conduct a cost-benefit analysis to determine whether or not the three-tiered approach with PWA Management, FMA-AR Unit and FMA Citywide Collections is the most effective and efficient utilization of resources in collecting PWA-IDAP invoices. The Administration stated that the current process is consistent with the handling of other receivables. Throughout the audit process, PWA and FMA Management acknowledged that the accounts receivable balances for illegal dumping cases are among the least viable in terms of collection. Given the unique aspects of the program, it is apparent that the process for collecting accounts receivables for the program needs to be tailored to accommodate the uniqueness of the program. Although the current process is consistent with the handling of other receivables, it is not practical for this particular program. Therefore it is essential that the cost-benefit analysis be conducted to address Management’s own acknowledgement that IDAP fines are not cost effective and determine what process is the most effective and efficient use of resources in collecting PWA-IDAP invoices and achieving PWA Management’s deterrence objectives.</p> <p><b>To close this recommendation, the Administration should provide documentation that PWA Management and FMA Management are conducting a cost-benefit analysis to determine whether or not the three-tiered approach with PWA Management, FMA-AR Unit and FMA Citywide Collections is the most effective and efficient use of resources. This documentation should be provided to the Office of the City Auditor by June 30, 2011.</b></p>

Recommendation #6	<p><b>Unresolved</b> – The Administration disagrees with the recommendation to allocate the needed resources to implement the recommendations from the April 2009 PWA Performance Audit. The Administration states that “installing surveillance cameras for added enforcement would actually increase uncollectible accounts receivable.” In our judgment there is no basis or evidence supporting this statement. In fact, the 2009 PWA Performance Audit provided examples of several cities in the United States that have similar issues with illegal dumping. These cities implemented and enhanced their use of surveillance cameras resulting in significant decreases of illegal dumping cases. Further, the intent of the recommendation is to explore and identify cost-effective ways to decrease illegal dumping.</p> <p><b>To close this recommendation the Administration should provide a plan for allocating the needed resources to implement the recommendations from the April 2009 PWA Performance Audit as it pertains to illegal dumping or viable alternatives that would achieve the same results. This documentation should be provided to the Office of the City Auditor by June 30, 2011.</b></p>
Recommendation #7	<p><b>Unresolved</b> – The Administration disagrees with this recommendation and stated it is irrelevant. However, these recommendations are based on best practices from the Office of the State Controller of Illinois and are recommended for the accounts receivable process. Further the Administration stated that “its internal controls and policy on accounts receivables are sufficient, and carefully formulated to ensure that the City is in compliance with GAAP.” If these policies and procedures were sufficient, FMA should have been able to provide documentation that</p> <ul style="list-style-type: none"> <li>• Periodic estimates are made of uncollectible illegal dumping accounts receivable balances and timely reported to management;</li> <li>• A clear allowance for doubtful accounts was established to ensure that the financial records properly reflect the amount of the illegal dumping accounts receivables that management estimates will be uncollectible;</li> <li>• A policy regarding the length of time the receivables and the doubtful allowance account will remain on the books before being removed completely;</li> <li>• Evidence to support proper write-off.</li> </ul> <p>Since FMA Management could not provide such documentation, this recommendation is essential given the unique composition of the illegal dumping receivables and the associated collection challenges.</p> <p><b>To close this recommendation, FMA Management should evaluate the design and operation of their internal controls over accounts receivables, including the establishment of policies and procedures to ensure:</b></p> <ul style="list-style-type: none"> <li>• <b>Accurate accounts receivable aging reports are prepared systematically and timely</b></li> <li>• <b>Periodic estimates are made of uncollectible accounts receivable balances with such estimates timely reported to management</b></li> </ul>

	<ul style="list-style-type: none"> <li>• A clear allowance for doubtful accounts is established to ensure that the financial records properly reflect the amount of the accounts receivables that management estimates will be uncollectible</li> <li>• Proper write-off, conversion and settlement or forgiveness of delinquent accounts is assured.</li> </ul> <p>FMA Management should provide detailed receivables policies and procedures with the attributes listed above to the Office of the City Auditor by June 30, 2011.</p>
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