City of Houston

Accounts Receivable & Collections

Status Update

August 9, 2011
David Feldman, City Attorney
Kelly Dowe, Finance Director
Introduction

- City Attorney delivers initial Debt Collection Report - February 16, 2011; significant findings were identified and included:
  - Large value of known receivables
  - Lack of citywide accountability for collections
  - Missing internal policies, procedures, and processes
  - Missed revenue opportunities
  - Inconsistent vendor contracts, processes for managing vendors, and vendor performance
  - Inefficient use of technology
Progress – Collecting Known Receivables

• Litigation
  – Suits aimed at collecting delinquent debt and other monies owed the City
  – Notices of intention to file suit sent to numerous debtors

• Other Court Related Activity
  – Abstracts of judgment filed resulting in liens on debtor properties

• ARA Parking Management
  – Re-noticed all delinquent accounts for collections increases of 57% and 54% in March/April 2011

• Municipal Courts
  – Achieved 64% increase in collections revenue generating $1,093,101 in FY11 versus $668,428 in FY10
  – Doubled FY11 Warrant Round-up revenue collecting $143,052 (versus $63,520 in FY10)

• Director of Finance has Citywide collections responsibility
Progress –
Citywide Accountability

- Creation of collections unit in Finance responsible for supervision of all actions necessary to enforce ordinances pertaining to the collection of revenue due and owing to the city
- Moving as quickly as possible; Finance, Legal and departmental staff are limited by resources and scope of Citywide accounts receivable problem
Progress – Internal Policies and Practices

• A.P. 4-4: Accounts Receivable & Collections Policy
  – Centralizes policy authority in Finance and provides guidance on billing & collection procedures, financial reporting, vendor management, identification of bad debt
  – Current focus on Health and Human Services; will expand citywide during Accounts Receivable and Collections (ARC) project which will be discussed later
Progress – Capturing Missed Revenue

- **HHS Laboratory Services**
  - Issued retroactive billing of 197 accounts never invoiced between 3/2009 and 5/2011; 15,000+ lab tests totaling over $430K in lab fees
  - HHS to turn over $200K+ in uncollected Harris County receivables to Finance and Legal Departments

- **HHS Pool Permitting**
  - Re-noticed 300 pool accounts in April 2011; netted ~$130K versus average month of ~$56K
  - Issued 90+ day delinquency notices in July 2011; 229 accounts worth ~$61K
  - Ongoing transition of Pool Permitting to HHS Garrison IT System providing new financial management and inspection tools

- **PWE Fire Special Services Permits**
  - Collaborating with PWE to reduce backlog of Fire Special Services Permit Renewal Notices
Progress – Vendor Contracts & Management

• Renegotiated ACS Billing & Collections Contract for EMS transports
  – Annual savings from reduction in contingency fee = $3.6M
  – Recall of debts ACS doesn’t collect within 120 days, for transfer to secondary collections vendor
• Developing RFP for collections services with PWE Combined Utility System
  – RFI released, meeting with vendors, RFP in development
• Other existing collections contracts under review
• Working towards scofflaw agreement with Harris County
  – Texas Legislature authorizes counties under contract with a municipality to impose $20 fee to those owing delinquent fines, fees, and for failing to appear in in a criminal case
  – MCD’s preliminary estimate on revenue increase for COH if an agreement were reached with Harris County on vehicle registration holds = $4.2M
Progress –
Use of Technology

• SAP Accounts Receivable & Collections (ARC) Pilot Project with HHS Laboratory Services
  – Implementing SAP Accounts Receivable (AR) and Sales & Distribution (SD) modules
  – Automated processes, reporting, and transparency
  – Replaces alternate lab-billing-specific software project with enterprise solution
    • $140K one-time versus $50K recurring annually
    • Provides for invoicing of over $1M in “never invoiced” and uncollected debt
  – SAP implementation cost ($140K) spread to additional revenue streams in future phases

• Accomplishments since April 2011
  – Working demo of SAP Accounts Receivable and Sales & Distribution modules
  – Development of invoice, past due notices, and aging reports
  – Project Go Live: 1/1/2012
## Path Forward – ARC Project Timeline

### Pilot
- Module Configuration
- Invoice, Dunning, Report Design
- Functionality Testing
- Go Live

### Phase 1
- Analyze and remediate data Citywide
- Prioritize revenue source implementation
- Map and design SAP processes
- Assess third party collections vendors

### Phase 2
- Implement SAP on priority revenue streams
- Continue to map and design processes
- Build procedures and train staff
- Vendor governance and performance metrics

### Phase 3
- Continue SAP implementation
- Refine implementation training and processes based on lessons learned
- Measure vendor and in-house performance

### Short Term Wins
- Process Improvements & Cash Collections

### Timeline

<table>
<thead>
<tr>
<th>Month</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ARC Pilot in HHS Lab</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ARC Phase 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ARC Phase 2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ARC Phase 3</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Short Term Wins and Revenue Generation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**FY13 Budget Process Begins**
Path Forward – ARC Project

• Increase collections on aging and new Citywide AR by...
  – Building ARC foundation with processes, staff, and technology
  – Breaking down department and IT system silos for reporting, synergies, and transparency
  – Maintaining momentum and achieving results quickly before FY13 budgeting process

• ARC Phase 1 includes consulting services for quick blitz of Citywide AR
  – Analyzing and remediating data to prioritize SAP implementation and collections efforts
  – Assessing third party collections vendors and implementing governance and performance metrics
  – Implementing process improvements to accelerate collections and stabilize revenue leakage
  – Providing training and guidance to City staff on AR & Collections best practices
  – Implementing top priority revenue streams in SAP

• ARC Phase 1 scope, timeline and costs expected within 2 – 4 weeks
  – ARC Phase 1 expected to last 4 – 5 months

• ARC Phases 2 & 3 to expand SAP implementation, continue process improvements, and manage performance of in-house and third party collections
Questions