



**INTERNAL AUDITOR'S REPORT ON
THE UTILITIES DEPARTMENT'S
DELINQUENT DEBT COLLECTION**

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Mr. Fernando Macias,

The internal auditor was asked to assess the effectiveness of delinquent debt collection efforts of the Utilities Department, since its September 2019 audit. A September 2019 audit of the Utilities Department revealed **delinquent** debt of \$634,000 for the five areas served within Doña Ana County (DAC). The debt was attributed to approximately 1,367 (39% of the active customer base) delinquent accounts in the following areas of service: 1) South Central, 2) Rincon, 3) Salem, 4) La Union, and 5) Chaparral. As of March 31, 2021, there were 821 delinquent accounts (31% of active accounts; a decrease of 546 delinquent accounts), however the **delinquent** debt balance was approximately \$649,844.36 (an increase of \$15,844.36). The following section outlines the recent history of debt collection efforts within the Utilities Department.

Findings

The Audit notes that the amount of **total** debt within the five areas served rose to approximately \$969,156.54 by October of 2020. A conference with the Utilities Department Manager revealed that the ill effects of the COV-19 Pandemic, which included job loss for some DAC citizens as well as limited in-office hours for Utilities personnel (via staff rotations), were contributing factors to the simultaneous increase in debt and decrease in debt collections. However, through the consistent application of 1) 30-day delinquency notifications, 2) establishing payment plans, and 3) placing liens against owner properties, by March 31, 2021 the Utilities Department was able to reduce the **total** debt by \$253,331.33, down to \$715,825.21. A portion of the \$253,331.33 debt reduction is due to the establishment of 143 Payment Plans¹, of which 119 (83%) payment plan clientele are current on their payments.

As Lower Rio Grande (LRG) customers owe approximately \$403,090.74 (56%) of the current **total** debt, DAC expects to begin collecting \$302,318.05 (75%) of the \$403,090.74 as early as July 2021, via the assistance of a newly approved agreement with LRG. Collection of the final \$312,422.98 (\$715,825.21- \$403,090.74) **total** debt is still being addressed by the Utilities Department. Actual and anticipated LRG delinquent debt collection results can be found in the chart below.

Audit Process

When sampling 65 of the 821 delinquent accounts, the Audit noted that 35 of 65 (54%) had risen by a total of \$8,632.29.

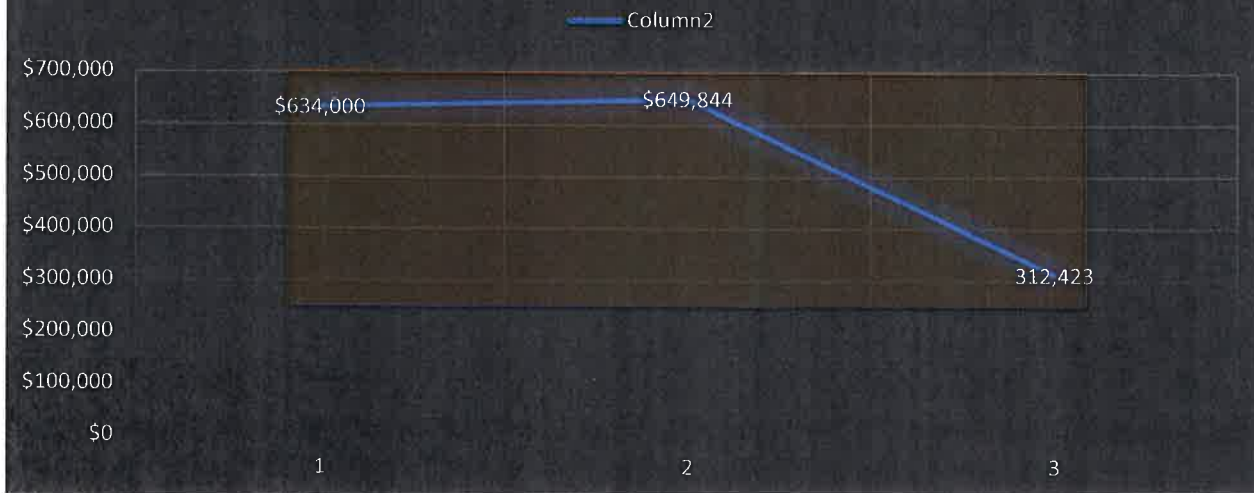
The Audit also reviewed statistics for all of the 312 property liens that had been assessed against owner properties. A sample of 31 of these 312 accounts revealed that 12 accounts (39%) were still delinquent.

A review of 24 additional accounts that met the qualifications to have liens levied against them revealed that only 10 had liens already filed.

Thus, department personnel will need to remain diligent in the application of current processes. A follow up conversation with the Manager of the Utilities Department revealed that during the 2021 calendar year the department lost both an Office Supervisor and a Document Technician, which has slowed its debt collection efforts.

¹ - Payment plans work as notes receivable in that the actual debt still exists and the client continues to make payments, but the face amount is reclassified as paid. If payment plan terms are violated, the result is a lien against debtor assets.

Delinquent Debts - Utilities



Areas of Note

Per Aging Reports for the second and third quarters of FY21 (Oct 20 – Mar 21) -

- Rincon's total debt consistently decreased on a monthly basis from \$27,846.78 to \$9,918.42 (a decrease of \$17,928.36);

- 15 of its 64 accounts (23%) are in delinquency;
 - \$6,760.37 of its \$9,918.42 total debt (68%) is delinquent.

- Chaparral's total debt decreased from \$176,334.19 to \$154,071.85 (a decrease of \$22,262.34);

- 163 of its 449 accounts (36%) are in delinquency;
 - \$152,522.53 of its \$154,071.85 total debt (99%) is delinquent.

- Salem's total debt decreased from \$65,565.15 to \$51,375.35 (a decrease of \$14,189.80);

- 49 of its 158 accounts (31%) are in delinquency;
 - \$45,848.08 of its \$51,375.35 total debt (89%) is delinquent.

- La Union's total debt decreased from \$61,225.05 to \$47,204.20 (a decrease of \$14,020.85);

- 62 of its 194 accounts (32%) are in delinquency;
 - \$40,962.58 of its \$47,204.20 total debt (87%) is delinquent.

- South Central's total debt decreased from \$638,185.37 to \$453,255.39 (a decrease of \$184,929.98);

- 532 of its 1789 accounts (30%) are in delinquency;
 - \$403,750.80 of its 453,255.39 total debt (89%) is delinquent.

The Liquid Waste account consists of businesses that have unloaded septic (an area wherein DAC no longer operates) at DAC's waste water treatment facility. As it was being phased out, this was not an area reviewed in the 2019 Utilities Audit. However, its balance is significant enough to be addressed in this inquiry. Aging Reports for the second and third quarters of FY21 (Oct 20 – Mar 21) indicated a debt increase from \$58,664.62 to \$140,258.07. Significant within

this total are the accounts for 2 of the 11 entities to whom Utilities will be sending a final bill on May 10, 2021, as their accounts equate to \$96,219.22 or 69% of the total debt:

Berry's debt: \$40,990.85 (\$47,922.35 - \$6,931.50 [Applied Deposit])

De La O's debt: \$55,228.37

Summary

- The DAC Utilities Department currently has 2,654 accounts, with 821 of these accounts in delinquency;
- Delinquent accounts decreased from 1,367 in Sept 2019 to 821 in Mar 2021;
- LRG will take over a majority 1,591 of DAC's accounts, leaving 1,063 (2,654 – 1,591);
- After the transfer of accounts to LRG, an estimated 350 of the remaining 1,063 accounts (33%) are expected to be delinquent;
- **Total** debt decreased from \$969,156.54 in Oct 2020 to \$715,825.21 in Mar 2021;
- **Delinquent** debt increased from \$634,000 in Sept 2019 to \$649,844.36 in Mar 2021;
- Per Aging Reports, approximately 30% of clientele account for 86% of the delinquent debt;
- Liquid Waste debt increased from \$58,664.62 in Oct 2020 to \$140,258.07 in Mar 2021.

Recommendations

The Audit recommends the following actions:

- Continue utilizing 30-Day Notices, sending them within the same week that an account qualifies for the notice.

An audit sample revealed that some accounts that had reached the threshold for liens did not have liens levied against them. Thus, on a weekly basis place liens against the assets of owners who allow for delinquent accounts and neither pay nor make payment arrangements. If the assistance of another Document Technician (Temporary) is justified, take the necessary steps to employ the needed assistance.

On a monthly basis continue to report the status of debts to management so that monitoring and corrective actions are taken in a timely manner. Also, enforce a process wherein Utilities Management indicates their review of account reconciliations and/or aging reports. This can occur via the initials of management upon such documentation.

- Immediately begin notifying the three main credit bureaus when accounts are in delinquency. Once contacted, the credit bureau data should be updated monthly, even if the delinquent client establishes a payment plan. In all fairness, an 'as of date' notice concerning the notification of credit bureaus should be sent to unresponsive property owners with delinquent accounts.
- Begin a review of provisions for bad debt write offs, so that applicable accounts can be brought to the County Manager for a signature, and thereafter written off.

If title insurance exists and a lien is on the property, do not issue a new account to an

owner until the title company has been contacted to pay off the old account in full.

- Meetings with Legal Department attorneys revealed that all of the proper documentation may not have been obtained from Utilities to allow for Legal to go forward with pursuing a payment from one of its Liquid Waste clients. The Audit recommends that the Utilities Manager set up a meeting with Legal and the Assistant County Manager for the purpose of determining steps needed to support litigation against the client(s) in question.

For the client who owns a mobile home park and is in the process of paying down a \$15,884.62 debt, secure a payment plan so that all parties have an agreed upon arrangement that entails the consequences for nonpayment.

For another client who owns a mobile home park but has refused to address a \$49,224.00 debt, see the Legal Department so that prompt legal action can be taken.

Per Doña Ana County Code, §254-5(B) a monthly late fee of 1.5% per is applicable to these accounts.

- For clients (businesses) with delinquent Liquid Waste accounts, Utilities no longer holds the leverage of refusing septic intake to these vendors. Thus, the Legal Department should be consulted in advance to determine actions that will need to be taken if any fail to pay or make payment arrangements after the May 10, 2021 notifications are mailed and received.
- As soon as feasible seek and broker similar LRG-type agreements with other water companies to both 1) assist with the collection of delinquent debts and, 2) relieve Utilities Department staff of such administrative duties.

Auditor Comments: The internal auditor recognizes the following resource available to qualified county residents -

Doña Ana County received a \$9.3 million grant from the U.S. Department of the Treasury, Emergency Rental Assistance (ERA) to assist local residents who have been impacted by COVID-19. This money is available for county residents including those within the municipalities of the cities of Las Cruces, Sunland Park and Anthony, the Village of Hatch and the Town of Mesilla. The grant covers rent and renters' utility payments. This grant does not cover mortgage payments nor mortgage owners' utilities.

As 30-Day notifications & liens are remitted to property (mortgage) owners but not to renters, the Audit recognizes that the ERA program above is not being applied to many delinquent accounts. While renters receive monthly billings that show the totals due (to include past due amounts) and as applicable could utilize ERA grant monies to make delinquent utility payments, the County places the responsibility of utility payments upon the property or mortgage owner.

The internal auditor extends his gratitude to Utilities Department Management and Staff for their support in this audit.