

Section 3.2: Payment and Invoicing Procedures for City Services Provided to the Zoo

- ◆ **Section 6.1 of the Management Agreement requires that the Zoological Society pay to the City the cost of all services provided by the City to the Zoological Society within 30 days of receipt of a written invoice. However, the Zoological Society was late in paying the majority of Recreation and Park Department invoices on time for City services provided to the Zoo. Of a total of 169 invoices issued from October 1993 to April 1999, 137 or 81 percent were paid late. The payments sampled were late an average of 34 days ranging from 1 day to 111 days overdue. The cost to the City, in terms of lost income from interest yields the City would have otherwise earned from invested funds, was \$80,262 over the course of five years.**
- ◆ **Independent of and in addition to the late payments caused by the Zoological Society, the Recreation and Park Department failed to invoice the Zoological Society in a timely manner after services were rendered to the Zoo. The longest delays in issuing invoices involved sewer service and water charges, maintenance services, and light, heat and power charges. For example, sewer service charge invoices sampled were delayed an estimated average of 284 days ranging from 122 to 726 days late. The delays experienced from October 1993 through December 1998 resulted in a loss of income from interest yields in the estimated amount of \$149,724 over the course of five years.**
- ◆ **The present system of appropriating funds to cover Zoo sewer service and Zoo light, heat, and power expenses in the annual Recreation and Park Budget and then having the Department bill the Zoo to reimburse the City for those expenditures is cumbersome and not cost effective. It has contributed significantly to costly delays in processing invoices and payments.**
- ◆ **Accordingly, at the suggestion of the Budget Analyst, the Public Utilities Commission (PUC) has agreed to have its Clean Water Department and Bureau of Light, Heat, and Power bill the Zoological Society directly instead of billing the Recreation and Park Department for PUC services at the Zoo. The Zoo Society has expressed its agreement to the change to direct billing.**
- ◆ **Implementation of our recommendations should result in avoiding the loss of interest income to the City in an estimated amount of \$50,000 per year.**

Background

Under Section 6.1 of the Management Agreement, the Zoological Society is required to pay the City the cost of all services provided by the City to the Zoo within thirty days of receipt of written invoices from the Recreation and Park Department.

The costs of services provided generally are classified into two categories: payroll costs, and non-payroll costs.

Payroll costs cover the salary and fringe benefit costs (excluding the cost of workers compensation premiums or claims) of Civil Service personnel directly employed at the Zoo.

Non-Payroll costs cover utility services provided by the City Public Utilities Commission such as water, sewer and light, heat, and power. Miscellaneous services, such as general maintenance and repair, and other various services such as tree topping and emergency repairs, which are Recreation and Park Department General Fund costs, are also included.

As part of our performance audit of the Zoo we examined the payment record of the Zoological Society to determine whether the Society has conformed to the 30-day requirement in paying for invoiced City services. This review included the following:

1. An analysis of the Recreation and Park Department's Zoo Abatement Salary Billing Schedule, a Zoo Maintenance Cost Recovery Schedule, a Zoo Utilities (Telephone and PG&E) Schedule, and a Zoo Abatement Sewer Service Charge Schedule. These schedules all show the service period, invoice date, due date, amount due, payment date, and check number from June 1997 to April 1999.
2. An examination of the Zoological Society's file of payment checks, Recreation and Park invoices, and monthly bank statements covering services provided from October 9, 1993, to April 15, 1999.
3. The San Francisco Treasurer's Table of Earned Interest Yields from invested Pooled Funds by month and fiscal year, for the period of FY 1976-77 through May 1999. This table was utilized to calculate costs to the City in lost interest income yields resulting from late payments and late invoicing.

Compliance With Lease and Management Agreement

Our review of the cited documents revealed that for the period of October 1993, to April 1999, 137 or 81 percent of 169 total invoices were paid late by the Zoological Society resulting in a loss of interest income to the City estimated at \$80,292, as shown below: (Detail in Tables I and II)

<u>Type of Invoice</u>	<u>Number of Invoices</u>	<u>No. of Invoices Paid Late</u>	<u>Estimated Loss of Interest Yields</u>
Payroll	137	110	\$62,704
Non Payroll	<u>32</u>	<u>27</u>	<u>17,588</u>
Total	169	137	\$80,292

However the foregoing does not accurately reflect the entire cost of late processing. An integral part of the audit involved the review of the Recreation and Park Department billing documents to determine whether invoices have been processed in a timely and effective manner. Unduly late preparation and submission of invoices, as well as delinquent payments, contribute to the loss of interest yields which otherwise could be realized through the Treasurers' investments.

It became evident during the course of review of the relevant documentation that there was a much greater loss of interest yield income to the City incurred from delays in submitting invoices for non-payroll services by the Recreation and Park Department than the losses resulting from late Zoological Society payments. For example, sewer service charge invoices sampled were delayed an average of 284 days ranging from 122 to 726 days late. The estimated loss to the City from these delays totals \$149,724 and is summarized below (See Tables III, IV and V for details).

<u>Table</u>	<u>Service Type</u>	<u>Service Dates</u>	<u>Estimated Lost Income</u>
Table III	Sewer Service and Water	3/95-6/98	\$91,651
Table IV	Utilities (Heat, Light & Power, Telephone)	1/96-12/98	22,792
Table V	Maintenance (misc. repairs, tree service)	10/93-10/96	<u>35,281</u>
	Total		\$149,724

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Recreation and Park Department staff attribute the delays to staffing reorganization, staff turnover and absences, some inadvertence, sporadic submission of time sheets by maintenance crews, and sporadic billing by Light, Heat and Power.

The magnitude of the volume of overdue payments and delayed invoicing is illustrated by the financial data shown below. This information was included in the annual Independent Auditor's reports to Zoological Society by the Certified Public Accountancy firm of Pannell, Kerr, and Forster.

Total Operating Expenses Incurred by the Zoo and Reimbursable to the City	Estimated Amounts of Reimbursable Expenses Remaining Outstanding
<u>Fiscal Year Ending</u>	
June 30, 1994	\$3,025,953*
June 30, 1995	3,837,482
June 30, 1996	3,685,052
June 30, 1997	3,559,276
June 30, 1998	3,084,384
	\$1,349,286
	1,668,386
	2,492,820
	1,245,721
	804,725

* Prorated for effective date of lease, October 9, 1993.

Section 6.1 of the Management Agreement requires that the Zoological Society and Recreation and Park Commission develop a process to document the provision of services and payment thereof in accordance with the Agreement. The Recreation and Park Department did not develop a system for this purpose until June 1997 – three years and nine months after the Agreement became effective. At that time, the Department installed a billing and tracking procedure, whereby staff can keep track of the status of issued invoices. In addition, in July 1997, the Department developed a quarterly billing procedure to expedite the recovery of Zoo maintenance costs.

While there appears to be some improvements in the billing performance of the Recreation and Park Department since the inception of the 1997 billing system, invoicing delays continue to occur due to staffing problems, late billing by the Light, Heat and Power Bureau, and sporadic submission of maintenance crew time sheets. Furthermore, it does not appear from the record that the Department's billing system has resulted in any improvement in the promptness of Zoological Society payments since June 1997. As a matter of fact, more invoices were paid late by the Society after June 1997, than before. (See Table I & Table II)

The Recreation and Park Department reports that it does not date stamp invoices when they are sent to the Zoo for payment. During the course of the audit we also found that the Zoological Society does not date stamp the invoices when they are

received. (We found only one invoice with a date-received stamp). As a result, we had to rely on actual invoice dates, Zoological Society dates on its payment checks, and a large sample of Zoological Society's monthly bank statements showing the dates each Zoological Society check was cashed. For most cases, particularly for Recreation and Park payroll invoices, the actual invoice date coincided with the date it was submitted to the Zoo. We recommend that the routine practice of date stamping all invoices and payments when received and sent by both the Zoological Society and the Recreation and Park Department be implemented. It is essential to the effective management of a billing and collection system.

CONCLUSIONS

Section 6.1 of the Management Agreement requires that the Zoological Society pay to the City the cost of all services provided by the City to the Zoological Society within 30 days of receipt of a written invoice. However, the Zoological Society was late in paying the majority of Recreation and Park Department invoices on time for City services provided to the Zoo. Of a total of 169 invoices issued from October 1993 to April 1999, 137 or 81 percent were paid late. The payments sampled were late an average of 34 days ranging from 1 day to 111 days overdue. The cost to the City, in terms of lost income from interest yields the City would have otherwise earned from invested funds, was \$80,262 over the course of five years.

Independent of and in addition to the late payments caused by the Zoological Society, the Recreation and Park Department failed to invoice the Zoological Society in a timely manner after services were rendered to the Zoo. The longest delays in issuing invoices involved sewer service and water charges, maintenance services, and light, heat and power charges. For example, sewer service charge invoices sampled were delayed an estimated average of 284 days ranging from 122 to 726 days late. The delays experienced from October 1993 through December 1998 resulted in a loss of income from interest yields in the estimated amount of \$149,724 over the course of five years.

The present system of appropriating funds to cover Zoo sewer service and Zoo light, heat, and power expenses in the annual Recreation and Park Budget and then having the Department bill the Zoo to reimburse the City for those expenditures is cumbersome and not cost effective. It has contributed significantly to costly delays in processing invoices and payments.

Accordingly, at the suggestion of the Budget Analyst, the Public Utilities Commission (PUC) has agreed to have its Clean Water Department and Bureau of Light, Heat, and Power bill the Zoological Society directly instead of billing the Recreation and Park Department for PUC services at the Zoo. The Zoo Society has expressed its agreement to the change to direct billing.

Implementation of our recommendations should result in avoiding the loss of interest income to the City in an estimated amount of \$50,000 per year.

RECOMMENDATIONS

The Zoological Society and Recreation and Park Department should:

- 3.2.1 Arrange for the Zoo to be directly billed for sewer service and light, heat and power costs by the Clean Water Department and Bureau of Light, Heat and Power, respectively. This should expedite timely payment by the Zoological Society and free Recreation and Park staff to devote more labor-intensive time to billing and collection procedures for maintenance and payroll costs. The Recreation and Park Commission budget should be adjusted accordingly.

- 3.2.2 Set up and maintain a date stamping procedure to better manage, control, and expedite payments by the Society and facilitate timely invoicing by the Department.

COSTS/BENEFITS

Billing the Zoological Society directly will expedite prompt payment for sewer and light, heat, and power services and enable Recreation and Park Department staff to more promptly bill for maintenance and personnel services. This should result in the avoidance of an estimated loss of interest income to the City in the amount of \$50,000 annually.