7. Monitoring Billing and Collections

- **The Port fails to consistently create accurate and timely bills for Real Estate and Maritime customers for property lease and vessel activity rents. Billing problems include: (i) errors in data entry into PROPworks, the billing and property management information system, (ii) incorrect application of Maritime tariff rates to vessel activity billings, and (iii) delayed, incorrect, or missing invoices for rent adjustments per the Consumer Price Index (CPI), lease terminations or lease amendments. For example, a limited review of property agreements found that the Port failed to issue retroactive invoices for three tenants for additional rent pursuant to amendments to their property agreements for a total of $1,573. The Port also failed to make several CPI adjustments resulting in underbilling of approximately $5,038.**

- **The Port uses several reports of account receivables and cash collections to monitor overall performance of Port collections. Although the Port claims to have reduced account receivables by $1,096,028, or 49 percent, from $2,228,320 in April of 2003 to $1,132,292 in December of 2003, this improvement does not account for uncollectables that are due to rent credits or balances that are written-off as bad debt. For example, in October of 2003, the Port had $1.81 million in accounts receivables, of which approximately $1.47 million, or 81 percent, were rent credits or bad debt write-offs. Port collection policies are incomplete and are not systematically applied to outstanding accounts. Although property managers are partially responsible for rent collections for the facilities they manage, the Port does not document performance of their collection activities.**

- **For Maritime activities, the Port does not adequately (i) monitor the accuracy of reports of casual landing and other vessel activities or (ii) maintain Maritime agreements, which are used to bill Maritime customers. Consequently, the Port incurs the risk of underbilling Maritime customers, thus reducing Port revenues.**

- **The Port needs to review billing and collection procedures, as well as the ongoing monitoring of agreements, to ensure that billings are accurate and timely, to maximize the current capacity of PROPworks, and to strengthen the Port's collection practices. By increasing the efficiency of the billing and collections process, a one percent improvement in collections of Maritime and Real Estate revenues, which are approximately $47.2 million a year, should be easily attainable. Therefore, by increasing collection of Maritime and Real Estate rent revenues by one percent, the Port of San Francisco would increase annual revenues by approximately $472,000 annually. Additionally, the Port would save approximately $31,000 in staff time, which could be reallocated to other functions.**

The Port's billing and collection process varies depending upon the type of invoice and activity. Real Estate agreements are comprised of commercial/industrial and percentage rental property agreements. Maritime agreements include (a) tenants who have leased Port property and are engaged in some type of Maritime revenue activity (Maritime property agreements) and (b) Maritime terminal agreements related to vessel activities (i.e., cargo, cruises). The management audit limited the detailed examination of the billing and collection cycle to a selected group of Real Estate and Maritime revenue types and activities.

The Financial and Data Administration Unit of the Port Real Estate Division, is responsible for the billing of commercial, industrial, and percentage rent of Real Estate and Maritime property agreements. In the Real Estate Division, property managers, in conjunction with the Collections Unit, are primarily responsible for the collection of rents and percentage rents, while the administrative analyst and wharfingers of the Port Maritime Division are primarily responsible for collecting revenues from the Port's vessel-related activities and Maritime property agreements. Senior property managers and the Real Estate and Maritime Divisions' assistant deputy directors also pursue collection attempts of complex and large accounts. The Accounting Unit of the Administration Services Division prepares automatic and miscellaneous billings of Real Estate and Maritime Divisions after they have ensured that PROPworks, the Port's billing and property management information system, has the required information to produce such invoices.

Real Estate and Maritime Billings

The Port bills real estate tenants on the 20th of each month for rents that are due on the first of the following month. Tenants who pay percentage rent must submit their sales reports and percentage rent payments by the 20th of the month following the reported month.

Unlike automatically billed property agreements, the Port creates miscellaneous (or one-time entry) invoices for each vessel call, which refers to any watercraft scheduled to berth at any facility of the Port of San Francisco, as noted in the weekly Vessel Schedule.[1] Wharfingers assign to each vessel call a Trip ID number, which is the identification system for all vessel activities. The Port regularly applies multiple charges, such as dockage, wharfage, and crane rental,[2] to a single vessel call, and the Port can bill for such charges to different customers. For example, if a vessel contains cargo that belongs to multiple carriers, the Port bills each of the carriers, or their agents, separately for their cargo.

After the vessel leaves the Port, carrier agents send a Vessel Attendance Report (VAR) to the Port for billing. Wharfingers, or the administrative analyst, enter into PROPworks trip detail information as reported in the agents' reports and make manual adjustments to them, if necessary. Wharfingers then send VARs to the Accounting Unit, which uses them to create miscellaneous invoices for each trip number.

Collections Procedures

Property rents, if unpaid, are delinquent on the 2nd day of the month, with a 15-day grace period to pay the balance due. By policy, the Port assesses service charges (or late fees) to monthly rent billings as of the 15th day of the month unless otherwise specified in the lease, and to percentage rent invoices when the tenant fails to submit his/her percentage rent report and any percentage rent payment. Percentage rent invoices have 30 days, while Maritime vessel-related billings have 45 days, before the Port applies service charges. Service charges are calculated at an annual rate of 10 percent (or 0.00833 percent per month) on all past due balances. Additionally, the Accounting Unit applies a penalty fee of $100 to accounts that failed to submit Percentage Sales Report by the 20th day of the month after the reported monthly sales.

The Port sends delinquent notices to tenants if the rent has not been paid by the 15th of the month and three-day notices to pay rent if the rent has not been paid by the 20th of the month. The Port considers tenants who fail to pay rent two or more times during the year habitual late payers, and may terminate their tenancy.

[1] Preceding the billing preparation, the Port prepares the weekly Vessel Schedule, which includes the pier number, date of arrival, vessel name, line agent, and trip number.

[2] Dockage refers to the charge assessed against a vessel for berthing at wharf, pier, bulkhead structure or bank, or for mooring to berthed vessels. The period the vessel is berthed at the pier and the length of the vessel regularly determine dockage charges. Wharfage is the charge against the cargo, which can include cargo in bulks, containers, bunkers, and passengers. Length of containers, weight of cargo, number of passengers, among other factors, can determine the amount of wharfage charged to carriers. The crane is the machine used for lifting heavy objects, like containers. The number of cranes rented and the operation time of the crane determine the crane rental charges.

Performance Monitoring

The Port uses multiple measures to monitor the overall performance of the billing and collection function, depending upon the user, although the Port primarily focuses on the amount of rent payments that are in arrears as a measure of its collections performance. The Port uses several monthly reports to monitor billing and collection performance, including:

- The Statement of Revenues (on a cash basis) and the Sales and Rent Report, which monitor cash collections for the current fiscal year;

- The Commission Report, which monitors the dollar value of outstanding account receivables (AR) with a value greater than $5,000, and includes the number of AR days that the accounts are outstanding, if the account is handled by the legal department, and a brief comment on the status of each account;

- The Top 25 Accounts Receivables Report to monitor aging (days past due) and dollar value of outstanding accounts for over 60 days of the 25 largest accounts with outstanding balances; and

- The Detail Aging Report by Portfolio, which measures the collection performance by the total outstanding balance per client by real estate portfolio, regardless of the number of agreements that a single client may have.

The reports provide a monitoring tool for property managers and division directors to assess cash collections, which are an important measure of the revenues that the Port realizes. Accounts receivables reflect the dollar amount owed to the Port but that have not yet been collected while an aging report of account receivables identifies collection trends.

In addition to the above reports, the Real Estate Division also produces monthly reports, as follows:

- The Reconciliation Report, which verifies the accuracy of the information in PROPworks; and

- The List of Property Agreements in Non-Billable Status, which identifies property agreements not billed by the Port and the explanation for the non-billable status.

To monitor the billing status of vessel related activities, the Maritime Division uses the Port Call Tracking (Not Yet Billed) Report, which is a live report available on the Port's intranet. To monitor the Port's billing and collections process, the Maritime Division also uses the Tariff No. 4, which includes collection procedures and rates for Maritime customers engaged in vessel activities.[3]

Commission Reports

The Port Commission receives monthly reports on outstanding account receivables with outstanding balances greater than $5,000. As shown in Table 7.1, for the nine-month period from April of 2003 through December of 2003, the Port reduced the amount of outstanding account balances by approximately $1.1 million, or 49 percent.

However, a reduction in account receivable balances does not necessarily result from an increase in collections. Rent credits to tenants for tenant improvements or other adjustments as well as balances written-off as bad debt also impact account receivables. For example, the October Port Commission Report shows a total outstanding balance of $1,809,226. However, based on a review of monthly Refunds and Allowances reports, which are prepared by the Accounting Unit, the Port considers approximately 81.4 percent of this outstanding balance, or $1,472,194, as uncollectable, comprising of the following:

- $827,098 of the outstanding balance of $1,809,226, or 45.7 percent, were credits to tenants for tenant improvements or other adjustments; and

- $645,096 of the outstanding balance of $1,809,226, or 35.7 percent, were subsequently written-off by the Port as bad debt.

The Port considered collectable only $337,032 of the outstanding balance of $1,809,226, or 18.6 percent. The Port should establish collection objectives that take into account collections performance net of tenant improvement allowances, restructure of leases, bad debt, and other adjustments and the impact these factors have on collections and Port revenues.

[3] The Port of San Francisco Terminal Operator Schedule No. 4 (Tariff No. 4), which is approved by the Port Commission, establishes the rules, regulations, rates, and other provisions applying to Maritime vessel-related activities and for the use of the wharfinger facilities under the jurisdiction of the San Francisco Port Commission.

Table 7.1
Balance of Outstanding Accounts Over 60 Days and $5,000

2003	Non-legal	Monthly Change	Resolved-Pending	Monthly Change	Legal	Monthly Change	Total outstanding balance	Monthly Change
April	$ 922,789		$ 559,840		$ 745,691		$ 2,228,320	
May	1,156,708	25%	557,012	-1%	733,562	-2%	2,447,282	10%
June	1,115,305	-4%	620,271	11%	750,903	2%	2,486,479	2%
July	984,376	-12%	736,624	19%	749,540	0%	2,470,540	-1%
August	1,017,069	3%	793,175	8%	681,943	-9%	2,492,187	1%
September	944,281	-7%	464,317	-41%	757,789	11%	2,166,387	-13%
October	972,991	3%	163,215	-65%	673,020	-11%	1,809,226	-16%
November	752,537	-23%	162,699	0%	693,651	3%	1,608,887	-11%
December	614,414	-18%	232,446	43%	285,432	-59%	1,132,292	-30%
Change over a 9-month period	**$ (308,375)**	**-33%**	**$ (327,394)**	**-58%**	**$ (460,259)**	**-62%**	**$ (1,096,028)**	**-49%**

Source: Monthly Reports of Status of Account Receivables of 60 days and over $5,000 (also known as the Port Commission Reports.

Weaknesses in the Port's Procedures for Billings and Collections

Problems in the Billing Process

The management audit reviewed 35 randomly selected property agreements and other Port documents to assess the accuracy of billing and property agreement data in PROPworks and the integrity of the billing and collection process.

Problems in Real Estate billings

Errors in PROPworks data entries and file maintenance

The Port can only correctly bill tenants if the tenant's lease and billing information in PROPworks is accurate. However, the Budget Analyst found several problems in entering and updating detailed property agreement information in PROPworks. The Budget Analyst found data entry errors or incomplete property agreement files in five of 35 randomly selected property agreements.

- PROPworks identified two property agreements as percentage rent agreements. However, the Accounting Unit has no percentage rent records for these agreements.
- Three other property agreements have insufficient documentation in their files regarding leasehold use, revenue type, and minimum rent, or incorrect lease commencement date.

Errors in billings of amended agreements

In reviewing the monthly Reconciliation Reports for September and October of 2003, the Budget Analyst found that the Port failed to back bill three tenants for additional rent under amendments to their property agreements, for a total of $1,573.

Errors in billings for water usage

The Port failed to bill one tenant the amount of $49 for water usage for a one-month period. Although the dollar value per year of the Port's billings for water usage is small, this example suggests weaknesses in the Port's monitoring of miscellaneous billings for variable activities and a breakdown in internal controls.

Delays and incorrect billings for Consumer Price Index (CPI) adjustments

Although the Port staff state that the timeliness of CPI adjustments to property agreements has improved, the Budget Analyst found several errors in CPI adjustments.

- In the random sample of 35 property agreements, the Port failed to bill for the CPI adjustment of one tenant, effective May of 2000. Because this tenant paid percentage rent, which exceeded the CPI adjustment to the base rent, the Port did not lose revenues. However, the Budget Analyst also found another example where the Port failed to adjust the minimum rent by the CPI of a percentage rent tenant in May of 2000, which resulted in a loss of revenues to the Port of $4,455 for the 34 months the tenant paid only minimum rent between May of 2000 and October of 2003.

- In the review of the September Reconciliation Report, the Port failed to adjust the CPI for one lease for eight months, and then billed the tenant the wrong amount for the wrong dates, resulting in underbilling of $242.

- The Port failed to bill one fish facility tenant for the CPI adjustment for a three-month period, resulting in underbilling of $341.

- The Port failed to make annual adjustments based upon the number of actual vessel landings in the prior year to one Maritime agreement in both July of 2002 and July of 2003.[4]

<u>Incorrect entry of Maritime tariffs and agreement rates</u>

Dockage charges are based upon the amount of time that the vessel is at berth and the length of the vessel. According to the Tariff No. 4, effective July 1st through November

[4] Per agreement, the Port is required to annually adjust the monthly landing fee paid by a Maritime customer, who has a landing right license for ferry service landing slots, based upon the number of landing schedule changes that occurred during the prior year.

30, 2003, dockage charges beyond the first 24 hours shall be assessed in whole six-hour increments and 25 percent of the full rate for each subsequent six-hour period. This language applies only to Pier 80, effective December 1, 2003.

The Port incorrectly billed dockage charges to some Maritime customers. Based on a review of 23 randomly selected vessel calls, and their corresponding 50 invoices, for the period May 1st to November 30, 2003, the Budget Analyst identified problems with dockage invoices in three vessel calls. The net dollar amount of identified billing errors is estimated at $505, as noted in Table 7.2.

The Port billed one Maritime customer for dockage charges based upon two full days of berthing instead of one day and two six-hour increments (1.5 days). Consequently, the Port overbilled the Maritime customer for the amount of $585.

The Port billed a Maritime customer for dockage charges based upon 12 full days of berthing instead of 11 days plus one six-hour increment (11.25 days). As a result, the Port overbilled this Maritime customer for dockage charges for the amount of $42.

The Port incorrectly billed dockage charges to a Maritime customer for dockage charges using Tariff No. 4 dockage rates effective before April of 2000, instead of rates effective from April 1, 2000 to June 30, 2003, resulting in the Port underbilling the customer for the amount of $122. Additionally, for the same vessel call, although the Port correctly billed the dollar amount of wharfage charges, the wharfage invoices show a weakness in billing procedures. The Port failed to include the number of empty wharfage units (275) in three wharfage invoices. Although the Port regularly charges $0.00 per empty wharfage unit and this omission of empty wharfage units in this particular vessel call did not have a fiscal consequence to the Port, the Port's failure to include empty wharfage units could affect how the Port bills calls of non-AMPAC vessels, which are charged $4.61 per empty wharfage unit.[5] The Port bills this particular carrier for dockage a fixed rate per each unit shipped, including full and empty units.

Table 7.2
Incorrect Dockage Invoices

Trip No.	Invoice No.	Amount Port billed	Amount Port should have billed	Difference
823	401616	$2,339	$1,756	$585
753	310996	$1,220	$1,342	($122)
870	402457	$666	$624	$42
			Total	$505

Source: Based on Tariff No. 4 rates and invoices issued by the Port for selected vessel calls.

[5] AMPAC stands for America Pacific, a consortium of carriers that provide shipping services between North and South America and Asia. The four AMPAC carriers are Columbus Line, Compania Chilena de Navegacion Interoceanica (CCNI), Maruba, and Mexican Lines/TMG.

Strengthening the Port's Billing Procedures

Correcting deficiencies in Real Estate's billing procedures

The Port needs to strengthen its procedures for billing Real Estate and Maritime tenants to ensure that the Port is billing and collecting revenues accurately. Property managers do not consistently complete basic lease forms and lease abstract documents or ensure that lease information is entered correctly into PROPworks. Additionally, administrative staff do not consistently enter accurate and timely data for new leases and adjustments to existing leases into PROPworks.

Property managers should be fully accountable for implementation of new leases and adjustments to existing leases, such as CPI adjustments, and for the correct and timely entry of lease information into PROPworks. The Port should develop a checklist or other system of control, in which property managers verify and sign off on new and amended lease information after it has been entered into PROPworks, ensuring accuracy and consistency of information in the property agreement, the basic lease forms and lease abstract documents, and PROPworks.

The Port also recently developed a "tickler" system to ensure that each property manager is identifying the correct date for CPI adjustments of property agreements, among other functions. Portfolio managers should routinely review the checklists (i.e., Basic Lease form and the Lease/License Termination Procedure Checklist) and PROPworks "tickler" notices that apply to each property manager to ensure compliance with lease provisions.

The Port also needs to ensure that new and amended property agreements have clearly identified commencement dates. Part of management's review of new and amended lease agreements should include specific dates in the agreement for rent commencement and corresponding dates in PROPworks. The Real Estate Division Assistant Deputy Directors need to also ensure that property managers are preparing miscellaneous billings for all new and amended property agreements in which the lease information is entered into the system later than the rent commencement date or too late for PROPworks automatic billing.

Correcting deficiencies in Maritime's billing procedures

Maritime's incorrect dockage invoices are partially due to the Maritime Division's failure to correctly create billing rules for each Maritime agreement in the Vessel Management Module of PROPworks that corresponds to Tariff No. 4 dockage rates, effective July 1, 2003. New Tariff No. 4 dockage rates became effective on December 1, 2003. The audit did not review Maritime invoices to determine if the Port was correctly billing for these new rates as of December 1, 2003. The Maritime Division should thoroughly review the current billing rules for each Maritime customer and the corresponding effective dates, to ensure that the correct rates are charged. Additionally, the Maritime Division should review miscellaneous billing procedures with Maritime and Accounting staff to ensure that empty wharfage units are correctly accounted for.

Maximizing PROPworks Capacity

<u>Maximizing PROPworks capacity to track maritime wharfage units</u>

PROPworks was originally designed to facilitate the Real Estate property agreement billings and property management. However, PROPworks has the capacity to facilitate Maritime billings of vessel related activities.

PROPworks does not automatically track the number of wharfage units per contract year handled by AMPAC carriers to verify if they exceed the threshold level of cargo units that will change the wharfage charges that the Port will use to bill cargo carriers. The Maritime Division does not automatically monitor wharfage units of AMPAC vessels because they do not regularly exceed the threshold level of 5,999 cargo units per contract year. The Maritime management analyst states that the total wharfage units for the contract year from December 1, 2002 through November 30, 2003 was 5,898 full units, consisting 101 units or 1.7 percent less than the 5,999 threshold. However, the Maritime Division reviews total wharfage units approximately twice a year for budget forecasting purposes. The Port should maximize current PROPworks capacity by producing and maintaining reports that are closely related to the billing process of Maritime vessel activities. According to Maritime agreements with cargo carriers, if the number of wharfage units handled by AMPAC carriers exceed 5,999 units per contract year, the wharfage charge for those units above 5,999 should be reduced from $45 to $30 per unit.[6] Other carriers have different schedules to charge wharfage units.

Additionally, Maritime wharfingers have to manually adjust passenger fees in the Wharfage and Dockage Statement of the VIP (Volume Incentive Program), which is prepared by carrier agents, because the Vessel Management module of PROPworks does not automatically track passenger numbers of VIP cruise lines at the time of billing preparation. Consequently, wharfingers have to review the *Cruise Passengers Running Total Report* by cruise line to identify the cumulative number of passengers for this particular cruise line at the day of the cruise ship arrival. This live report is available in the Maritime section of the Port Intranet. Based on the cumulative number of passengers, the wharfinger manually adjusts the passenger fee to the correct tiered passenger fees as stated in the Tariff, so that the Port charges carriers correct passenger fees. To efficiently monitor and forecast wharfage units handled by cargo carriers per contract year, the Maritime Division, in collaboration with the Information System Unit, should create a live *Full Wharfage Units Running Total Report* that Maritime staff could use when verifying carriers' Vessel Attendance Reports for billing, particularly at the third and fourth quarters of the contract year.

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[6] Wharfage thresholds and contract years can vary by carrier agreement (e.g., Norsul) and carrier's participation in AMPAC.

Problems in applying service charges and penalty fees by Port's information systems

The Port does not consistently impose service charges on delinquent monthly invoices of commercial tenants and Maritime vessel activities, and in some situations, applies an incorrect amount of service charges to delinquent invoices. For tenants who pay monthly rents between the 20th and the last day of the month, although they are due on the 1st day of the month, the Port does not apply service charges to delinquent payments. In some instances, the Port does not impose service charges to vessel-related invoices that were paid late, yet in the same calendar month they were due. Therefore, the Port is not systematically enforcing its collection policies.

The Port's failure to assess service charges is partially due to: (i) deficiencies of the Collections Unit in monitoring the assessment of service charges; (ii) inability of PROPworks and Oracle, the Port's financial accounting system, to automatically apply service charges to outstanding invoices in a timely and correct manner; and (iii) lack of consistency between the Port collection policies, lease/license provisions, and the programming instructions of Port information systems to apply service charges.

The Port charges percentage rent tenants a $100 penalty for failing to submit their monthly sales reports by the 20th of the month. PROPworks does not automatically apply the $100 penalty charges to percentage rent tenants, and the Port's Accounting staff manually enters the $100 penalty charge, although not on a specific day of the month.

The Port issues invoices for percentage rent on the date that percentage rent payments are received. By policy, the Port applies service charges (or late charges) to past-due percentage rent payments. However, if tenants fail to submit their percentage rent report and payments by the 20th of the month, the Port does not issue a bill. If no bill is issued in PROPworks, Oracle is unable to automatically assess and accrue service charges.

If tenants submit their monthly sales reports and percentage rent payments to the Port on time, but the Port fails to create an invoice, the Port is unable to apply the payment against a specific invoice. Without an invoice against which to apply a payment, the Port's information systems are unable to automatically show the receipt of such payments. In these instances, the tenant will have payments in their account balance, which are not applied against a monthly invoice.

Maritime casual landing customers are required to submit sales reports to the Port to estimate dockage charges. If the casual landing customer does not send a sales report on time, the Maritime administrative analyst creates a miscellaneous billing, charging a $100 penalty charge for the late report.

In a review of October of 2003 billings, one tenant submitted late percentage sales reports and payments on several instances for the 10-month period from December of 2002 through August of 2003. The Port did not apply the $100 penalty fee to the late sales reports or service charges to the late percentage rent payments.

Several factors contribute to the Port's failure to consistently apply penalties and service charges.

- The Port's collection policies do not specify a date on which penalty charges should be applied to late sales reports.
- PROPworks does not automatically flag the late submission of percentage rent sales reports of percentage rent tenants and casual landing customers, nor apply the $100 penalty charge to late reports and service charges to late payments.
- Oracle has a fault or "bug" that sometimes does not allow the system to apply service charges.
- Port policies also do not clearly specify the responsible person for ensuring that the Port applies service charges and penalty fees to casual landing customers.
- Port staff lack a clear understanding or agreement on the responsibility of staff within the Accounting, Real Estate, and Maritime divisions to ensure that the Port correctly and timely assesses service charges and penalty fees.

The Port needs to clarify its written policies on applying penalty charges and service charges to late sales reports and percentage rent payments. Specifically, Port policy needs to identify individual responsibility and timing of penalties. Further, Port management should examine opportunities to maximize current PROPworks capacity to automate and customize routine billing procedures, including monitoring Maritime dockage units and casual vessel landings, and applying service charges to late percentage rents.

Unapplied Payments

When the Port fails to issue invoices in a timely manner, payments cannot be applied to tenant billings, resulting in unapplied cash balances. Monthly account statements sent by the Collections Unit to tenants do not include unapplied cash standing in their accounts. Additionally, if tenants call the Port inquiring about their outstanding balances, the Collections unit provides the total amount due to the Port, including principal and a manually estimated amount of accrued service charges. These tenants typically pay the total amount that the Collections Unit tells them they owe. However, the financial systems do not calculate service charges to delinquent invoices in the same manner as the Collections Unit, and in some situations, does not apply service charges at all, resulting in unapplied balances standing in tenants' accounts.

The Port also fails to periodically reconcile accounts that have old balances of unapplied payments. The Collections unit currently investigates any unapplied cash only during the account reconciliation of terminating agreements. Creating miscellaneous billings for unapplied payments is a property managers' responsibility. According to Accounting Unit staff, an unapplied payment can become an issue if the payments are standing in accounts over a two-month period, when automatic and miscellaneous billings should have been already created.

The Port's failure to apply payments to correct invoices can result in the Port underestimating total rent and service charges revenues from Port clients. During account reconciliation of terminating agreements, the Port may incorrectly credit the "unapplied cash" to new outstanding balances or give the money back to tenants that actually belongs to the Port. Port's failure to apply payments to invoices, which in some situations are not created or are incorrect, can cause the Port to employ additional resources (i.e., staff hours) in searching the transmittal of the original payment and the purpose of such payment, cleaning up manual internal errors, making billing adjustments when tenants pay wrong amounts, and producing billings. Port's failure to correctly apply payments to invoices can result in underpayments going unnoticed. Late billings for full or partial unapplied payments can also increase the risk to the Port of incurring in uncollectable balances.

Based on a review of the Aging Detail Report as of January 6, 2004 and the "open items" of 35 randomly selected property leases, 18 Maritime vessel customers and two other accounts (totaling 55 Real Estate and Maritime accounts), the Budget Analyst found that 13 of these 55 accounts had unapplied payments totaling $18,550. The oldest unapplied cash was from June of 1998.

The Port should apply tenants' payments to specific invoices. If the invoices are not available in the system, the Port must create invoices for the application of such receipts. In case of overpayments or advanced payments, the Port should notify tenants of the unapplied balance standing in their accounts through the Monthly Account Statements. The Collections Unit, in collaboration with the Accounting Unit, should reconcile all unapplied payments at least twice a year and also during the agreements' termination process. The monthly Detail Aging Report can also serve as monitoring tool for such reconciliation process.

Some Property Agreements in Non-Billable Status Should Be Billed

The Real Estate Division produces a report called the List of Property Agreements in Non-Billable Status, which is intended to increase the Port's accountability over those agreements that are not billed by the Port. Property managers can adjust the billable status of property agreements, provided that they submit documentation for such a change to the Real Estate administrative analyst. Property managers sometimes send Real Estate administrative staff emails or incomplete Lease/License Termination Procedures Checklist as evidence of the effective termination date. However, these documents do not necessarily indicate the true effective termination date of the agreement or the actual date the tenant vacated premises. This practice becomes a problem when (i) property managers do not maintain the Non-Billable report, and (ii) when the Port stops billing tenants who notify Port of their intentions to terminate their agreements and vacate premises on a particular date, but fail to do so.

In reviewing the status of 26 agreements included in the List of Property Agreements in Non-Billable Status as of 11/5/04 and 11/20/03, the Budget Analyst found several issues. At least 10 agreements had outdated information regarding their non-billable status. The Port stopped automatically billing three tenants while they were still occupying the premises, even though they had provided Port a termination notice indicating an effective date of termination. For at least two of these three agreements, the Port was creating miscellaneous invoices for percentage monthly rents because tenants were sending payments to the Port. Sometimes, such monthly payments were past due, and the Port did not assess service charges.

Based on an examination of terminating agreements included in the Rent Roll Reconciliation Report for October of 2003, the Budget Analyst found that a property manager authorized the Accounting Unit to credit full monthly rent to the tenant, instead of half monthly rent. According to Lease Termination Procedure Checklist, the tenant vacated the premises on October 15, 2003 and owed rent for the period from October 1st through October 15th. Consequently, the Port failed to bill the tenant the rent amount of $748.

In the above instances, the property managers failed to enforce and monitor the tenants' 30-day termination notice or to submit termination papers to the Real Estate administrative analyst to complete the termination process. Property managers also failed to create timely miscellaneous billings to tenants in non-billable status who had not vacated the premises.

The Port does not have clear criteria of when property agreements should be changed from billable to non-billable status. Nor are property managers well-informed on the purpose and maintenance of the non-billable status report.

The Port should revise the current Lease/License Termination Procedure Checklist, requiring property managers to follow-up with tenants who have given notice, submit the appropriate termination papers for entry into the system, and create timely miscellaneous billings when necessary. Portfolio managers should routinely review these checklists to ensure property managers' compliance with billing requirements. The Port should also clarify and enforce the criteria for placing and monitoring tenants in non-billable status.

Property managers do not consistently document the "walk through" date when the property manager inspects the premises vacated by a tenant or the actual date that the tenant vacated the premises. The checklist should include documentation of the "walk through" and vacation date, signed by the tenant and property manager, and reviewed by Real Estate management.

Maritime Agreements

Maritime vessel-related and, in some instances, property agreements dictate Port charges for maritime activities, rent adjustments, responsibility for maintenance and repairs of Port facilities, and other related issues.

Problems in Maintaining Maritime Files

The Port does not properly maintain maritime terminal agreements filed in the Maritime Division. In the management audit review of selected vessel calls between May 1, 2003 and November 30, 2003, the Budget Analyst found that the Port offers special dockage and wharfage rates to some customers that are not established by the Tariff or formal written agreement. For example, the rates, which are different from the Tariff No. 4, for two Maritime customers are established in emails only. Effective lay berth vessel call rates for one Maritime customer were established by verbal agreement. In the review of customers' files of these selected vessel calls, the Budget Analyst found that several Maritime agreements were incomplete or missing from the filing cabinet of Maritime agreements. The Maritime administrative analyst also stated that the Maritime Division has recently faced clerical staffing problems.

In the absence of written agreements regarding rates, the Port could have difficulty collecting revenues owed to the Port if the Maritime customer disputes the agreement or defaults. Also, the Port risks having abandoned boats or boats containing hazardous materials berthed at Port facilities, damage to Port facilities, or unexpected maintenance and repair costs resulting from unwritten agreements. Further, there are no controls in place to ensure that informal agreements are appropriate. Inconsistent and informal application of terms and conditions to customers increases the perception of favoritism.

To ensure that the Port has sufficient safeguards to prevent revenue loss or other liabilities, the Maritime Division should establish a written agreement with regular vessel customers. Such written agreements shall establish the effective dockage and wharfage rates, if they are different from the Tariff No. 4 rates. Vessel related rates could be competitive, but should not be significantly lower than current market rates. The Maritime Division should establish standard operational procedures that indicate the circumstances on which formal agreements should be created, and when a berthing application, which is currently under review, would be sufficient. For reducing the risk to the Port of incomplete, outdated, and sometimes, lost files, the Maritime Division should establish a simple filing system that fits with the uses and needs of this Division. This filing system should complement how Maritime property agreements with some vessel activity are maintained in the Real Estate Division, and Division management should identify and hold a staff person responsible for its maintenance.

Auditing Accuracy of Casual Landing Sales Reports and Vessel Attendance Reports

For casual landings and excursions, the Port bills carriers or agents for dockage seven percent of gross revenues in excess of a fixed $125 fee. Casual landing customers must submit sales reports, which are used to estimate dockage charges for casual landing calls, by the 20th of the following month of the reported month. However, neither the Accounting Unit nor the Maritime Division monitors sales reports of casual landing customers, and the Port does not periodically audit sales reports submitted by casual landing customers. Further, Maritime percentage rent tenants, who also have casual landings, do not include gross sales from casual landing activities on their monthly sales reports, which are regularly monitored and periodically audited by the Accounting Unit. Finally, not every casual landing customer has a contractual agreement with the Port, and therefore, the Port does not possess the right to audit such sales reports.

Additionally, the Port does not periodically audit the accuracy of Vessel Attendance Reports (VARs). The Port uses such reports to calculate dockage, wharfage, and crane rental charges, and prepare invoices for each vessel call. The Port's failure to periodically audit Vessel Attendance Reports could result in the Port inaccurately billing Maritime vessel customers. It also increases the risk to the Port of cases where carriers or agents underreport wharfage units, and therefore, increases the risk of revenue loss.

The Port should ensure that casual landing customers send such sales reports to the Port in a timely manner, and that the Port bills these clients for additional dockage charges, if applicable. The Port should also periodically audit sales reports of casual landing customers as well as Vessel Attendance Reports submitted by carriers or agent lines by site inspections and review of customers' books and manifests. As noted by some Maritime Division staff, periodically reviewing VARs against manifests reported to U.S. Customs can benefit the Port in several ways. For instance, the Port could ensure that new agents or new people in agent lines, who work as intermediaries between the Port and carriers, are accurately reporting all wharfage contents of vessels. The Port could decrease the risk of underreported cargo and non-cargo wharfage, resulting in increased revenue to the Port.

Collections Policies and Procedures

Property managers and wharfingers are responsible for collecting past due payments from tenants. Administrative staff create accounts receivable reports, and send both initial and follow-up letters to tenants regarding late payments. The policy for collecting past-due accounts includes the past due letters or delinquent notices sent by administrative staff, penalties and service charges, and three-day notices to quit. Once administrative staff have notified and followed up with tenants of past due payments, property managers and wharfingers are responsible for collecting past due payments. Although property managers are responsible for collections for the properties they manage, the Real Estate

Division does not document their performance. The performance evaluation criteria for property managers do not include measures for collection activities. The Real Estate Division should revise the performance evaluation criteria for property managers to include evaluation of their collection activities.

To monitor collections, Real Estate managers receive routine reports, allowing them to assess the tenants' payment status. Port staff, including legal staff, management, and individual property managers, meet monthly to discuss accounts. Further, the Real Estate Division Director receives weekly collection reports and reviews major collection issues.

Senior property and portfolio managers become involved in rent collections if late payments or non-payments become an ongoing problem. Real Estate managers work with tenants to develop payment plans or to restructure lease agreements. According to one senior property manager, the tenant is responsible to request a payment plan. Port staff will work with the tenant to restructure the lease agreement or establish a payment plan, sometimes in collaboration with legal staff. The Port has not established written policies regarding restructured leases and payment plans, but Real Estate managers say that, generally, they try to restructure lease agreements which will allow the Port to continue to receive market rate rents, and require the tenant to pay delinquent balances, including additional compensation to make up for periods of no revenue. Although the Division Director believes that collections policy has been problematic in the past and that collections problems have been allowed to sit for too long, he states that many collection problems should be resolved as a business and not as a legal issue.

Tenant Improvement Allowance to Past-Due Tenants

The Port issues rent credits for agreed-upon tenant improvements to the Port's property. Often these rent credits are for facility maintenance, such as painting, waterproofing, or other repairs. These rent credits are established by lease agreement, settlements, or the Port's rent credit policy, which was suspended in July of 2003. Based on a review of the Port's practices between June of 2003 and December of 2003, the Budget Analyst found several instances when the Port applied rent credits to tenants with outstanding balances. In some instances, the Port wrote off service charges accrued from unpaid balances after the rent credits have been applied. Although these rent credits were for agreed-upon tenant improvements, the tenant's first responsibility is payment of all rents to the Port. The Port should establish a written policy, affirming the tenant's primary responsibility to pay rent, and withholding the application of rent credits to the tenant's account, until all past due payments and service charges are applied.

Conclusions

The Port fails to consistently create accurate and timely bills for Real Estate and Maritime customers for property lease and vessel activity rents. The management audit review of Port billings and collections functions found deficiencies in the entry of agreement information into PROPworks, the billing and property management information system, dockage billings of some vessel activities, and in the rent adjustment and billings procedures regarding Consumer Price Index, terminated agreements, and amended agreements.

The Port uses several reports of account receivables and cash collections to monitor overall performance of Port collections. Although the Port reduced account receivables by 49 percent from April of 2003 to December of 2003, this improvement does not account for uncollectables due to rent credits or balances written-off as bad debt. Port collection policies are incomplete and not systematically applied to outstanding accounts. Although property managers are partially responsible for rent collections for the facilities they manage, the Port does not document performance of their collection activities.

The Port does not adequately (i) monitor the accuracy of reports of casual landing and other vessel activities or (ii) maintain Maritime agreements, which are used to bill Maritime customers. Consequently, the Port incurs in the risk of underbilling Maritime customers, thus reducing Port revenues.

The Port needs to review billing and collection procedures as well as the ongoing monitoring of agreements, to ensure that billings are being accurate and timely, to maximize the current capacity of PROPworks, and to strengthen Port's collection practices.

Recommendations

The Real Estate Division Director should:

7.1 Ensure that property managers are fully accountable for implementation of new leases and adjustments to existing leases, such as CPI adjustments, and for the correct entry of lease information into PROPworks.

7.2 Develop a checklist or other system of control, in which property managers verify and sign off on new and amended lease information after it has been entered into PROPworks, to ensure accuracy and consistency of information in the property agreement, the basic lease forms and lease abstract documents, and PROPworks.

7.3 Require property management staff, in collaboration with the Real Estate administrative analyst, to review (i) checklists such as the Basic Lease form and the Lease/License Termination Procedure Checklist and (ii) PROPworks "tickler" notices that apply to each property manager to ensure compliance with lease provisions.

7.4 Require Real Estate staff to revise standard terms of agreement amendments and assignments to ensure that they have clearly identified rent commencement dates or agreement effective dates, so that the Port can correctly bill new, amended, and assigned agreements from their correct rent commencement date.

7.5 Require the Assistant Deputy Directors to supervise that property managers are correctly preparing miscellaneous billings for all new, amended, and assigned property agreements in which the agreement information is entered into the system later than the rent commencement date or too late for PROPworks automatic billing.

7.6 Improve the current Port agreement termination process by:

a) Designating property management staff, in collaboration with the Real Estate administrative analyst and Collections unit, to revise the current Lease/License Termination Procedure Checklist;

b) Requiring property management and leasing management staff to provide Real Estate administrative staff with documentation of the "walk through" (e.g., Real Estate Survey) and the vacation date, signed by the tenant and property manager, and reviewed by Real Estate management, as part of the termination process;

c) Requiring property managers to (i) follow-up with tenants who have given notice, (ii) submit the appropriate termination papers for entry into the system, and (iii) create timely miscellaneous billings when necessary, to ensure the Port bills tenants rents until they vacate leased premises; and

d) Requiring portfolio managers to routinely review lease termination checklists to ensure property managers' compliance with billing requirements.

7.7 Clarify and enforce the criteria and procedures for placing and monitoring tenants in non-billable status to reduce the risk of not billing tenants that should be billed.

7.8 Revise the performance evaluation criteria for property managers to include evaluation of their collection activities.

7.9 Ensure that the Port applies tenants' payments to specific invoices by verifying that:

a) Property management staff, in collaboration with the Collections Unit, create invoices to unapplied payments standing in accounts;

b) The Collections Unit staff notify tenants of the unapplied balance standing in their accounts through the monthly account statements, in cases where customers have made overpayments or advanced payments; and

c) The Collections Unit staff, in collaboration with the Accounting staff, reconcile all unapplied payments at least twice a year and also during agreements' termination process. The monthly Detail Aging Report could serve as monitoring tool for such reconciliation process.

7.10 Improve the application of service charges and penalty fees to delinquent Port clients by requesting staff of the Collections Unit, in collaboration with administrative staff of Maritime, Accounting, and Information Systems, to:

a) Clarify Port's written and unwritten collection policies and procedures on applying penalty charges and service charges to late sales reports and percentage rent payments; and

The Maritime Division Director should:

7.11 Request the Maritime administrative analyst, in collaboration with Information Systems staff, to review the current billing rules in PROPworks for each Maritime customer and their corresponding effective dates, to ensure that the Port charges correct rates to Maritime customers.

7.12 Review miscellaneous billing procedures with Maritime and Accounting staff to ensure that empty wharfage units are correctly accounted for, and that sales reports and fixed and percentage dockage billings of casual landing customers are properly monitored.

7.13 Maximize current PROPworks capacity for billing procedures of Maritime vessel activities by:

a) Requesting the Maritime administrative analyst, in collaboration with Information System staff, to produce and maintain live reports that are closely related to the billing process of Maritime vessel activities, to efficiently monitor and forecast wharfage units handled by cargo carriers per contract years and improve the efficiency of billing procedures of Maritime vessel activities. For example, Information System staff can create a live Full Wharfage Units Running Total Report that Maritime staff could use when verifying carriers' Vessel Attendance Reports for billing, particularly at the third and fourth quarters of the contract year.

7.14 Establish (i) written agreements with regular vessel customers, and (ii) standard operational procedures that indicate the circumstances in which formal agreements should be created, and when a berthing application, which is currently under review, would be sufficient, to ensure that the Port has sufficient safeguards to prevent revenue loss or other liabilities caused by defaults of Port clients.

7.15 Enhance maintenance of Maritime terminal (non-property) agreements by:

a) Developing a simple filing system of Maritime terminal agreements, which complements the Real Estate Division's maintenance of Maritime property agreements, that also meets the needs of the Maritime Division; and

b) Designating the staff person who will be responsible for maintenance of the Maritime filing system to decrease the risk to the Port of incomplete, outdated, and sometimes, lost Maritime files.

7.16 Designate a specific Maritime staff to be responsible for ensuring that casual landing customers send Sales Reports to the Port on a timely manner, and that the Port bills these clients for additional dockage charges, if applicable.

7.17 Establish audit procedures for sales reports of casual landing customers as well as Vessel Attendance Reports (VARs) submitted by carriers or agent lines to ensure (i) casual landing customers correctly report Port sales proceeds from casual landing activity, and (ii) new and current agents, who work as intermediaries between the Port and carriers, are accurately reporting in VARs all wharfage contents of vessels.

The Port Commission should:

7.18 Establish collection objectives that take into account collections net of tenant improvement allowances, restructure of leases, bad debt, and other adjustments and the impact these factors have on collections and Port revenues.

7.19 Establish written policies regarding restructured leases and payment plans with the intent to continue receiving market rate rents while recovering delinquent balances plus interest.

7.20 Establish a written policy, affirming the tenant's primary responsibility to pay rent, and withholding the application of rent credits to the tenant's account, until all past due payments and service charges are applied.

Cost and Benefits

Based on a one percent improvement in collections of selected types of Maritime and Real Estate revenues of approximately $47.2 million a year, which should be attainable, the Port of San Francisco would realize approximately $472,000 annually in additional revenues based on the implementation of the audit report recommendations. By increasing the efficiency of the billing and collections process, the Port could save approximately $31,000 annually, based on a time saving of one hour per week for those positions involved in the billing and collections process, excluding Legal staff. This time could be reallocated to other functions.