

CITY OF ALLENTOWN

ACCOUNTS RECEIVABLE OVER \$10K – COMMUNITY & ECONOMIC DEVELOPMENT (CED)/BUILDING STANDARDS & SAFETY

Date of Report: December 14, 2021

Accounts Receivable (AR) is money owed to the City of Allentown but not yet paid for by its constituents and/or customers.

AR is reported in EDEN and is created by the various departments for services rendered. Monthly, EDEN generates an invoice and mails it to the customer, who, in turn, must pay it within an established timeframe, called payment terms. Non-payment may result in automatic interest and penalties assessed to the customers' account.

As of 05/24/2021 the total Accounts Receivable balance in EDEN was \$3,042,660.72. We identified 67 (sixty-seven) AR accounts over \$10,000.00 (\$10K) totaling \$1,621,314.27.

Of the 67 accounts identified, 21 (twenty-one) AR accounts totaling \$623,481.04 were for COMMUNITY & ECONOMIC DEVELOPMENT (CED) or BUILDING STANDARDS & SAFETY properties. Of the 21 (twenty-one) AR Accounts:

- 13 (thirteen) AR accounts totaling \$391,427.91 were for Demolitions,
- 3 (three) AR accounts totaling \$39,474.44 were for Self-Forgiving Loans,
- 5 (five) AR accounts totaling \$192,578.69 were for Other Building Standards and Safety issues.

OBJECTIVE

The objective of the review was to review AR over \$10K and:

- Determining the validity of the AR balance by account,
- Determining the reasonability of collection of the AR, and
- Identifying any areas for improvement.

PROCEDURES

This audit was conducted in accordance with generally accepted governmental auditing standards and utilized an approach that included reviews of websites, telephone inquiries and reports.

Our process began by running an EDEN AR report and identifying all accounts with a balance over \$10K.

Using the list, the AR was categorized by type of service provided by the City and reviewed.

FINDINGS, RECOMMENDATIONS AND RESPONSES

INTERNAL CONTROL WEAKNESSES

1. Demolitions

Pursuant to the Pennsylvania Municipal Claim and Tax Lien Law, Pennsylvania municipalities are empowered to lien property for taxes, municipal improvements, removal of nuisances, and for water rents or rates, sewer rates, and lighting rates.

Per Section 1741.15, Section E, of The Allentown City Code,

“Where the public officer or the City takes corrective action to abate a public nuisance, the cost thereof, including any labor or materials supplied by the City, shall be charged to the owner and shall constitute a municipal lien against the real property upon which such cost was incurred. The Bureau of Law promptly shall file such lien and shall make every effort to collect it within six (6) months of the recorded date. If the corrective action involves the removal or demolition of any structure, the public officer may sell the materials thereof by public sale and any amounts realized shall be credited against the cost of the corrective action, and any balance remaining shall be deposited with the City Treasurer in the name of the owner of record. In the event of dispute regarding the proper distributes of such balance, such account shall be disbursed to the persons found to be entitled thereto by final order or decree of the Court of Common Pleas of Lehigh County, and any City expenses incurred for legal fees or court costs may be charged against such balance. The City will add an administrative fee of Three Hundred (\$300) dollars or 15% of the cost of abatement, whichever is greater to each bill incurred, as a result of non-compliance with a public nuisance order. (13332 §1 5/18/95; 14737 §1 8/24/2009)”

Building Standards and Safety (BSS) processes most of the Demolitions invoices and keeps track of liens.

The process for Demolition is as follows:

- The City performs the demolition work on an as needed basis,
- The City pays the contractor for work completed,
- BSS creates an invoice for the demolition and sends it to the property owner,
- BSS must wait a minimum of 30 days for the owner to pay the bill. After 30 days, BSS can proceed with filing a lien against the property.

Of the 13 (thirteen) properties identified for demolition, 7 (seven) totaling **\$265,420.26** were not liened.

Recommendation

Demolition properties should be liened as required.

Exceptions should be presented to Senior Administration and City Council for formal (documented) approval of the exception.

Administration's Response

Exceptions to the Municipal Lien filing process will be provided to Director of CED for review. CED will collaborate with the Finance Department on developing and Uncollectable Debt Policy, which attempts to balance the expense owed to City, value of subject property, and opportunity for future redevelopment.

In reality, properties that are “underwater” due to liens and debt exceeding the property value become neglected, abandoned, and blighted. Many owners just let the property go to tax sale. The impact to the surrounding properties and neighborhood by these zombie properties is huge and difficult to reverse. The legal process of unraveling excessive liens attached to a property may mean a property is neglected and abandoned for months, if not years, and even more money will be expended in legal fees.

We believe there are proper checks and balances in place for decisions like this including CED leadership, Finance Department and City auditors. The Uncollectable Debt Policy will also provide guidance. It does not seem appropriate or necessary for City Council to weigh in on individual property decisions like this

2. Aged AR

As of 05/24/2020, we identified 1 (one) AR for **\$22,080.00** for illegal dwelling units.

The initial assessment made in 2013 was for **\$11,500.00**. The remainder **\$10,580.00** was for penalties and interest. No payments have been made since the initial assessment. The property was not liened.

Additionally, the property was not flagged for AR Review, and it is unclear whether the balance is collectable.

Recommendation

To protect the City from potential loss due to the sale or transfer of the property, death, etc., properties should be liened as outlined in the City Code, Section 907.02 Failure to Comply.

BUILDING STANDARDS & SAFETY should consult with LAW to determine if there is any other way to protect the City from potential loss.

BUILDING STANDARDS & SAFETY should obtain AR Review training from FINANCE to insure items do not become stale and are collectable.

Administration's Response

This specific aged AR issue dates back to 2013. BS&S will consult with Law to determine if the balance is collectable and if a lien can be filed. It is unclear what happened here more than 8 years ago. BS&S does not need training since there have not been repeated occurrences of these matters.

3. Lack of Documentation in EDEN

Review of the AR files in EDEN for Demolition, Self-Forgiving Loans, and other Community and Economic Development billings indicated no documentation supporting the AR was scanned into EDEN.

Recommendation

Documentation supporting loans, promissory notes, liens etc. should be scanned and attached to the Receivable files in EDEN.

Administration's Response

BS&S currently identifies a property in EDEN as "Liened" once the lien is filed. Backup documentation is electronically located in Admins system, as that is the platform used to file the Municipal Lien. BS&S staff can upload the backup lien documentation into EDEN as well.