

Industry standards

for the multifamily utility billing industry

The following standards should be considered when selecting a utility billing and energy management provider. Multifamily owners and managers implementing these standards will reduce risk to their assets and to their residents.

Required audits and data security

✓ Type II SSAE 16 audit

For public multifamily companies, an annual SSAE 16 SOC 1 Type II audit is required by Sarbanes-Oxley for service providers. Conducted by an independent auditor, it covers both the design and operational effectiveness of key controls and processes at the service provider. Once called a SAS 70, it is an elevated standard of operation that is marketable to lenders and investors and beyond. Expansion of this audit to include ISAE 3402 (International Auditing and Assurance Standards Board) will ensure that additional costs of sponsoring audit reviews at service organizations are avoided particularly for overseas investors; and the ability to attract overseas investments with solid financial controls.

Benefit: SSAE 16 SOC 1 Type II reports focus on a service organization's financial control activities, including management of information technology and related processes to ensure they are as secure as possible against a breach and in accordance with the best practices to protect financial and personal data. This is a key factor for publicly held real estate investment trusts (REITs) that maintain large portfolios of residential properties and especially those with international ties.

✓ PCI Level I certification

PCI Level I is the highest level certification for credit card processors and those handling credit cards transactions. Annual audits assure companies follow stringent protocols to protect customer transaction data.

Benefit: Companies that accept credit card payments are subject to a number of financial requirements to protect their operations and resident information. Annual certifications assure companies follow stringent protocols to protect transaction data. Such protection lowers the risk of data breaches, exposure and loss by customers.

✓ Tier IV data processing centers

Tier IV Data processing centers offer the highest level of availability, reliability and security with a minimum 99.995% uptime, 2.4 minutes of downtime, and have 96-hour power outage protection. Such centers are externally-certified and audited annually for compliance. Tier IV data centers are considered the most robust and are less prone to failures as they are designed to host mission critical servers and computer systems, with fully redundant subsystems (cooling, power, network links, storage, etc.) and compartmentalized security zones controlled by biometric access controls methods.

Benefit: Electronic banking means convenience for residents and cash flow for owners, but also adds layers of exposure and potential risk. Access to financial data is mission-critical and processing center downtime equates to significant hard cost and exposure. Tier IV is a baseline standard to assure financial records are secure and accessible.

Required core competencies

✓ Submetered and RUBS billing practices

Individually-metered properties where residents' consumption is measured and billed directly require a different protocol than RUBS (ratio utility billing system) where the apartment owner/manager relies on a pre-calculated formula based on multiple variables.

Benefit: A good billing company will have staff with years of experience to successfully manage both, be it individually metered or RUBS. Look for fiscal improvement and substantiated metrics of accuracy, regulatory compliance and performance.

✓ Submetering

Make certain that all submetering installation and maintenance meet state licensing, inspections and regulatory requirements in the jurisdiction the work occurs.

Benefit: In addition to mitigating liability, it is an asset (or liability) to the property's value and sale.

✓ Legal oversight

A good billing company will have specialized, in-house regulatory attorneys and a support team versed in policy related specifically to multifamily utility billing. The legal staff will monitor and perform compliance research for line item changes on invoices across over 3,000 LUD utility vendors in 16,000 regulatory jurisdictions amounting to managing over 200,000 regulatory rules nationally; this is in addition to general counsel.

Benefit: Such a legal resource assures your billing is compliant on all levels (federal, state, city) and helps mitigate risk from fines being levied due to non-compliance to regulations, and from very costly suits brought by disgruntled residents. Operating at this level of legislative dexterity means the company will have a policy watch, even participate in legislative guidance protecting the interests of the multifamily industry in its dispensing water, sewer, trash, gas and electricity.

✓ Electronic Data Exchange (EDE)

Electronic Data Exchange (EDE) is the process by which resident activity is sent and received via an electronic file. Providers must have strong, working relationships with major property management information systems.

Benefit: Accurate and timely increases resident satisfaction. No manual updating to PMS and accounting systems reduces human data entry error and ensures higher accuracy of information. Transferring resident data electronically frees on-site staff time so they can concentrate on leasing activities.

✓ Financial controls

Every billing company should have specific and thorough financial controls to ensure sound financial processes. Such controls will include:

- Daily, monthly, and annual client cash reconciliations
- Integrated billing and accounting software
- Signature control requirements

Benefit: Such processes act as breakers on potential errors or improper use of funds, and can prevent theft from client accounts.

✓ Internal quality controls

Quality operational efficiency and billing flexibility require stringent and numerous controls to ensure consistent accurate and timely billing. Look for controls within the billing company's processes that insert stop-gaps measures to identify errors or issues in data integrity.

Benefit: Following internal checks and balances ensures accurate and timely delivery of resident bills and minimizes resident concerns.

✓ Resident support services

A toll-free number and call center can assist residents with questions regarding the bills they receive. A 24-hour automated system to provide basic account information is also convenient for residents seeking only to confirm their balance due.

Benefit: A call center keeps an open line of communication with residents and quickly addresses any questions they may have on their bill. This keeps receivables moving, and increases resident satisfaction.

✓ Resident disclosures

It's important to provide residents with online or accessible disclosures on the method of computing their bills, as well as secure-access to copies of their current and prior bill and statements.

Benefit: In today's economy, it's more important than ever for a resident to understand their bills and how they are calculated. Making this information available builds rapport and trust, expedites payment, and allows residents to understand how usage may directly impact their monthly expenses.

✓ Preview and authorize bills before shipment

Companies should offer a pre-billing approval process allowing for either temporary or on-going property approvals to be performed before resident billing occurs without impacting on-time delivery.

Benefit: A pre-billing approval process affords an additional check-point for accuracy on resident billing to ensure that information being billed is as expected. This confirms residents are not over or under billed for specific charges.

✓ Segregated bank accounts

Segregated client bank account should be used for immediate deposit of all amounts collected on behalf of client. These should be audited annually by a nationally-recognized accounting firm to ensure client collection amounts are not used to fund the operations of the billing company's business.

Benefit: The impropriety of co-mingling funds has led to many a company's insolvency; billing companies are a prime offender. Know with certainty that your billing company is not using the funds being collected from residents for your utilities as their operating capital.

✓ Compliance with MITS

National Multi Housing Council's MITS (Multihousing Information and Transaction Standards) are standardized protocols for data exchanges in the multifamily industry.

Benefit: Following these standards means that interfaces used in billing your residents meets industry guidance.

✓ Energy Star partner and direct interface to ESPM

Companies must be Energy Star partner certified and have a direct interface to upload customer data into EPA's Energy Star Portfolio Manager (ESPM) to comply with mandatory disclosure statutes.

Benefit: It's mathematically impossible to recover 100% of the potential utility expense without first identifying the measure of waste and spend. Being able to benchmark against like properties will help you better understand your utility expense and how you may reduce consumption and cost. Avoid penalties in cities and states that have mandatory filing with ESPM.

✓ Retrofit requirements and incentives

Utility billing providers must be able to assist with the retrofit requirements of local jurisdictions and be knowledgeable of energy incentives. Required certifications of upgrades should be provided when buying and selling properties.

Benefit: Retrofits should build asset value and eventually deliver fiscal return. It can make the difference in terms of pay-off, as well as yield value through property certifications when buying and selling.

✓ Minimum insurance coverage

Make certain your billing company holds insurance policies with providers holding an "A/X" rating or better by AM Best & Company. Minimal coverage to ensure you are protected includes:

- Umbrella policy of at least \$10 million
- Commercial general liability, combined single limits not less than \$1 million / occurrence
- Professional liability/errors and omissions covering loss for errors, omissions, negligence, etc. in performance of billing services not less than \$10 million
- Media content covering errors, omissions, negligence etc. resulting in a breach of computer security, including physical theft of hardware or firmware or theft of a password of at least \$10 million
- Security and privacy coverage of at least \$10 million
- Cyber extortion coverage of at least \$10 million
- Network interruption coverage of at least \$10 million
- Crime insurance covering loss as a result of theft, including wire transfer fraud, forgery or alteration, computer fraud, funds transfer fraud, credit/debit card forgery, money orders and counterfeit paper currency and property of at least \$2 million
- Worker's compensation in accordance with each state's statutory requirements
- Employer's Liability not less than \$1 million per occurrence

Benefit: For many utility billing providers, having the proper insurance coverage can be the difference between staying solvent or declaring bankruptcy. The correct levels of coverage mitigate risk and potential interruptions in service.

