



GARLAND

INTERNAL AUDIT

Wastewater Audit Follow-up

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Authorization

We have conducted a follow-up audit of Wastewater. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objective

This is a follow-up of the "Wastewater Audit" issued on April 17, 2012. Our objective was to determine if previous audit recommendations were implemented.

The objectives of the original audit were to:

1. Determine if monthly billing is performed with the most current and accurate data and properly calculated.
2. Determine if monthly payments are received in a timely manner.

Scope and Methodology

We conducted this audit follow-up in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The original audit included testing for compliance with customer city contracts and City Ordinance 50.35. The same methodologies were applied during this audit follow-up. The scope of the audit follow-up was for the time period September 1, 2011 through April 30, 2014. Our scope included all wastewater customer cities and six hand-billed (manual billed) industrial/commercial customers.

To assess the reliability of the data we reviewed source documents of meter readings. As a result of our testing, we determined that the data was sufficiently reliable for the purposes of this follow-up report.

Audit Follow-up

This audit follow-up was not intended to be a detailed study of every relevant system, procedure and transaction. Accordingly, the follow-up section may not be all-inclusive of areas where improvement might be needed.

The following results for each finding are as follows:

Finding #1
Condition (The way it is)
City C is operating under an expired contract.
Recommendation
Management should: A. Ensure that the contract is renewed. B. Develop a mechanism to notify the department of pending contract expiration/renewals.
Management Response
GWU partially concurs with this finding and recommendation. Prior to 2008-09, wastewater billing and contract management was the responsibility of the Rate Manager in the Finance Department. In late 2008, when GWU assumed direct oversight for both of these functions and began working with an outside consultant to develop rates, staff reviewed all of the customer city contracts in detail, along with the various terms, conditions, and expiration dates. As part of the modeling process, the consultants recommended that GWU work toward a uniform wastewater services agreement in the future that would not only specify the same basis for rate calculations, but also include provisions to address alternative metering where applicable as well as changing regulatory limits. Preliminary research on a standardized contract was begun, but it was not until City C failed to provide advance notice of their intent to renew the existing contract that the opportunity to renegotiate this 25-year contract materialized.
Action Plan
GWU has spoken with the Finance Manager and the City Engineer of City C, and has agreed to continue to provide service under the existing contract terms (at the rate adopted each year by Council ordinance) until a new contract can be executed.
Implementation Date
Because of the complexities involved in creating a contract that will be used as a model for all future wastewater contracts, it is expected that a new contract will take a minimum of one year to develop and implement. (Mar 2013)

Auditor's Comment

Our suggestion is to consider renewing the contract for an additional one (1) year until a new standardized contract is created.

Follow-up

- A. The Financial Manager stated that City C's contract has not been renewed. It is in the process of being drafted by the City Attorney's office.

- B. GWU is requesting an account representative in the upcoming budget year to oversee contracts.

Implementation

- A. Not Implemented
- B. Not Implemented

Finding #2

Condition (The way it is)

The billing cycle for City A appears to be excessive. During our audit period, we found that the total billing cycle averaged 58 days, greater than other city customers.

Recommendation

Management should reevaluate the billing cycle process to reduce the processing time.

Management Response

GWU partially concurs with this finding and recommendation.

City A is a large city with a complex billing system. Prior to recent construction of a new Garland sewer line in the contiguous area, Garland flows and that of City A commingled before reaching a point where a meter could be installed, and it was not feasible to meter the flow for City A. Billing has instead been based on reported metered water usage for City A commercial customers located in the service area and an average winter month's household water use for the residential customers being served by Garland. This reporting methodology requires that the relevant billing cycle be complete and any billing issues on City A's side be resolved before final data can be transmitted. Information is normally received between 10 to 20 days following the end of the billing month. If information is not received within this timeframe, a "reminder" e-mail is sent, requesting the information.

Action Plan

With the new Garland line in place, City A is in the process of installing a meter to measure their flow data. Metered flow, which should be available immediately following the end of the month, will then be used to calculate the monthly bill.

Implementation Date

Meter installation is expected to be complete and operational in three to six months (June – Sept 2012).

Auditor's Comment

In this finding, we believe that Management satisfactorily addressed one cause regarding the timeliness of City A to provide flow information. However, Management did not address the other two causes: invoice preparation time and payments not received by the due date.

Follow-up

A review of October 2012 through February 2014 payments disclosed that the total billing cycle went down from an average of 58 days from the prior audit to an

average of 37 days, which is consistent with other cities.

Implementation

Implemented

Finding #3

Condition (The way it is)

- A. Late fees were not assessed when wastewater customer payments were past due.
- B. City A and City B have no criteria for late payments outlined in the contract.

Recommendation

Management should:

- A. Assign responsibility and accountability for monitoring late payments to ensure that late fees are assessed when appropriate.
- B. Amend the City A and City B contracts to include late payment criteria and thoroughly review future contracts to ensure appropriate criteria are included prior to execution of the contract.

Management Response

GWU partially concurs with this finding and recommendation.

- A. It is the responsibility of GWU to remit billing information, along with a formal request to invoice, to the City of Garland's Finance Department. From that point, Finance invoices the customer and receives payment. It would be outside the purview of GWU to assess late fees related to payment receipt.
- B. City A and City B contracts were executed in 1977 and do not expire until 2027. While current GWU staff cannot speak to the level of oversight and review that occurred at the time the contracts were developed, there would appear be little incentive for these cities to amend contract terms solely on the basis of adding late-payment penalty fees that are not currently part of the agreement.

Action Plan

GWU will coordinate with Finance to make sure they are aware of any/all contract stipulations related to late payment penalties.

As other opportunities to renegotiate contracts arise and a "model" contract is developed, language related to timely payment of invoices can be included.

Implementation Date

GWU will immediately send information related to late payment penalty clauses to the Finance Department.

In addition, GWU will approach City A in the next twelve to eighteen months regarding renegotiation of a uniform contract.

Auditor's Comment

We contacted two other North Texas water treatment organizations (including one local municipality) to compare their contract terms and conditions with ours and to verify their assessment of late payment penalties. Our verification revealed the following:

1. The first water treatment organization outlines late payment provisions (10% penalty) in its municipal contracts. Late fees are assessed when payments from municipal customers are past due.
2. The municipality has plans to add late payment provisions to their municipal customers' contracts at renewal. Late payment provisions will coincide with the City's Ordinance.

In addition, conversations with Finance and the Utility Department revealed plans to incorporate these hand-billed customers into the pending Banner System Upgrade. If the Utility Department is able to incorporate these changes, late payments will be assessed automatically by the Banner System. To accommodate these changes in Banner, the contracts should be amended to reduce conflicts that may arise due to Banner's assessment of late fees.

Follow-up

- A. IA's inquiry with the Finance Department disclosed they had not received any communication from the Water Department in regards to late payment stipulations.
- B. City A and City B's contracts do not expire until 2027. According to management, GWU has spoken with City A concerning a future joint project and briefly discussed updating their current contract. The contract will be updated if the joint project transpires. A new contract has not been performed to date.

There had been discussions with Finance and the Utility Department which revealed plans to incorporate hand-billed customers into the pending Banner System upgrade. Hand billed customers are not entered into Banner; therefore, late payments are not assessed automatically by the Banner System. New contract revisions have not been made for City A or B.

Implementation

- A. Not Implemented
- B. Not Implemented

Finding #4

Condition (The way it is)

- A. The monthly invoice for Industrial Customer A is calculated based on the number of times the treatment tanks are discharged in a day. Industrial Customer A does not have an operational meter. The method used to calculate their wastewater bill is not in compliance with City Ordinance 50.35.
- B. The accuracy of Industrial Customer A invoices could not be determined due to an inability to verify reported flow.

Recommendation

- A. Management should:
 - 1. Ensure that the meter for Industrial Customer A is repaired so that wastewater flow calculations can be accurately reported.
 - 2. Use the City Ordinance 50.35 method to calculate Industrial Customer A's invoice until meter is repaired.
- B. Management should obtain back-up documents to verify the reported wastewater flow on a monthly basis.

Management Response

GWU partially concurs with this finding and recommendation.

The Ordinance governing the Industrial Customer rate class states that sewer effluent will be measured at 80% of water flow unless the customer has installed a City-approved flow monitoring device. Nothing in this particular ordinance addresses alternate billing for an inoperable device. Customer A has been submitting flows based on tank discharge for seven or more years, and presumably received approval from the former Rate Manager or appropriate authority for this alternate procedure due to the inability to accurately measure the flow with a meter.

Action Plan

GWU will seek to amend Ordinance 50.35 to include other accepted flow measurement techniques for industrial customers where metering is not a workable solution.

GWU will request that Industrial Customer A include a more detailed log sheet regarding the number of tank discharges with the data transmitted to Finance for billing.

Implementation Date

October – December 2012 when new rate ordinance changes are scheduled to be presented to Council.

Auditor's Comment

To clarify this finding, it is true that the Ordinance does not specifically address inoperable meters. However, the Ordinance dictates two methods of calculation: (1) 80% of water usage, or (2) Metered usage, if a meter is installed. The method used by Industrial Customer A is not listed in the Ordinance.

In addition, conversations with the Utility Department regarding the incorporation of the hand-billed customers in the Banner System revealed that the Banner System is unable to adhere to the current method (tank discharges) used for this customer.

Follow-up

A. Our review of invoices to Industrial Customer A revealed that:

1. The meter was repaired and calculations were performed by meter flow beginning on 9/26/13.
2. Ordinance 50.35 has not been amended to include other accepted flow measurement techniques, for industrial customers, where metering is not a workable solution.

The City has not used Ordinance 50.35 method to calculate Industrial Customer A's invoice. Internal Audit's review of October 2011 through December 2012 data disclosed that if the 80% Ordinance methodology had been used, an additional \$22,647.46 would have been received by the City. (Exhibit A).

B. Management obtained back-up documents to verify the reported monthly wastewater flow data.

Implementation

A. Internal Audit determined:

1. Partially Implemented
2. Not Implemented

B. Implemented

Finding #5

Condition (The way it is)

The accuracy of the wastewater flow as reported on the invoices from most of the industrial or commercial hand-billed customers could not be determined due to lack of calibration records.

Recommendation

Management should require calibration reports from all industrial/commercial hand-billed customers to verify the accuracy.

Management Response

GWU partially concurs with this finding and recommendation.

The ordinance that governs rates and billing procedures does not address the collection of meter calibration data; therefore, no calibration data has been required in the past.

Action Plan

GWU will seek to add a clause to Ordinance 50.35 to codify additional customer responsibilities when installing a sewer flow meter (or alternate accepted methodology) to be used for billing purposes.

Implementation Date

October – December 2012 when new rate ordinance changes are scheduled to be presented to Council.

Auditor's Comment

Calibration is an important aspect of billing because it provides a reasonable assurance of the accuracy of flow which is one-half of the billing equation.

Follow-up

Our review of Ordinance 50.35 indicated that it was not changed. In addition, inquiries revealed that not all industrial/commercial hand-billed customers have submitted calibration reports to verify the accuracy of meter calculations. One out of three industrial customers and all three commercial customers did not submit calibration reports.

Implementation

Partially Implemented

Exhibit A – Utility System Data versus Invoiced Data

	Utility System Data			Invoice Data		
Month	Usage	80% of Water Usage Amount	Estimated Invoice Based on 80% of Water Usage	Billed Usage	Billed Amount	Revenue Difference
Oct-11	380,300	304,240	\$ 2,902.45	209,720	\$ 2,000.73	\$ 901.72
Nov-11	395,300	316,240	\$ 3,317.36	123,520	\$ 1,295.72	\$ 2,021.63
Dec-11	176,300	141,040	\$ 1,479.51	146,680	\$ 1,538.67	\$ (59.16)
Jan-12	189,500	151,600	\$ 1,590.28	177,560	\$ 1,862.60	\$ (272.32)
Feb-12	248,600	198,880	\$ 2,086.25	243,180	\$ 2,550.96	\$ (464.71)
Mar-12	338,300	270,640	\$ 2,839.01	208,440	\$ 2,186.54	\$ 652.48
Apr-12	326,100	260,880	\$ 2,736.63	154,400	\$ 1,619.66	\$ 1,116.98
May-12	263,100	210,480	\$ 2,207.94	158,260	\$ 1,660.15	\$ 547.79
Jun-12	538,100	430,480	\$ 4,515.74	123,520	\$ 1,295.72	\$ 3,220.01
Jul-12	414,100	331,280	\$ 3,475.13	119,660	\$ 1,255.23	\$ 2,219.89
Aug-12	490,500	392,400	\$ 4,116.28	111,940	\$ 1,174.25	\$ 2,942.03
Sep-12	430,500	344,400	\$ 3,612.76	115,800	\$ 1,214.74	\$ 2,398.01
Oct-12	601,800	481,440	\$ 5,050.31	235,460	\$ 2,469.98	\$ 2,580.33
Nov-12	537,100	429,680	\$ 4,730.78	150,540	\$ 1,657.45	\$ 3,073.33
Dec-12	457,500	366,000	\$ 4,029.66	205,287	\$ 2,260.21	\$ 1,769.45
					Net Revenue Lost (Gained)	\$ 22,647.46

Exhibit B – Sampling Methodology

Customer A during the prior audit had been using a method of calculating wastewater flows which was not in agreement with Ordinance 50.35. Their meter had been non-operational for several years, yet the method used to calculate their flow was the number of times per day the tanks were discharged. A flow meter was installed January 14, 2013 to capture flows so calculations could be accurately reported.

Internal audit used the source document, a manual Waste Water Log read by maintenance personnel at Customer A's business, and traced the flow readings to Customer A's Excel spreadsheet which was given to the City's Finance Department as support to perform the invoice for Customer A.

A random sample of October 2013 and February 2014 source documents were compared to the Excel spreadsheet sent by Customer A and with the invoices with no exceptions noted.

This test was performed to verify the reliability of data coming from Customer A. As a result, the conclusions regarding accurate calculations are intended to be projected to the population.