

**DEPARTMENT OF
ENVIRONMENTAL SERVICES
WATER AND SEWER DIVISION**

**AUDIT OF DEPOSITS FOR
NON-RESIDENTIAL CUSTOMERS**

AUGUST 2003

Prepared by: Internal Audit Division Clerk of Circuit Court
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August 29, 2003

The Honorable Daryl McLain,
Chairman
The Board of County Commissioners
Seminole County, Florida
1101 East First Street
Sanford, FL 32771

Dear Mr. Chairman:

I am very pleased to present you with the attached audit of Deposits for Non-Residential Customers of the Water and Sewer Division. The audit was performed at the request of the Environmental Services Department.

Management's responses have been incorporated into the final report. It is our opinion that the Environmental Services Department effectively is managing the water and sewer billing activities in accordance with county policy. The administrative controls over the program are adequate and operating in accordance with county policy and other applicable regulations.

I would like to thank the men and women of the Water and Sewer Division for their cooperation and assistance throughout the course of this audit. I especially would like to acknowledge the help of Mr. Robert Briggs. Their assistance is deeply appreciated. With warmest personal regards, I am

Most cordially,

Maryanne Morse
Clerk of the Circuit Court
Seminole County

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**Seminole County
Department of Environmental Services
Water and Sewer Billing Division**

SPECIAL REVIEW OF DEPOSITS FOR NON-RESIDENTIAL CUSTOMERS

The Internal Audit Division of the Office of the Clerk of the Circuit Court has completed a special review of the administrative controls over the handling of non-residential customer deposits. Mr. Robert Briggs, finance manager for the Environmental Services Department requested the review.

PURPOSE

The purpose of this special review was to determine if the administrative controls over non-residential customer deposits are adequate and exercised in compliance with Seminole County policies and procedures; and to ensure that deposits are applied to the proper account and the rates, fees, and other charges are in accordance with county policy.

BACKGROUND

The Water and Sewer Division of the Environmental Services Department provides residential and commercial water and wastewater utility services to approximately 35,000 customers within unincorporated Seminole County. These services are provided through county-owned and operated water and sewer facilities and wholesale agreements with other utilities. Water and Sewer billing functions include directing, coordinating and performing county billing, collection, and accounting for the Water & Sewer and Solid Waste Enterprise Funds.

It is a common practice for apartment complexes to charge tenants for water and sewer; most use billing companies. This audit was initiated as a result of one billing company having its \$31,440.00 deposit with the county accidentally applied to another company's account. In this particular situation, the apartment complex was "transitioning" from one billing company to another. The deposit was posted to the old billing company's account. Although management is addressing this specific issue, it requested Internal Audit to evaluate the controls to ensure that there are no more mispostings.

The audit that follows was performed in two phases. The first phase was designed to ensure that all the fees, rates, and charges were made in

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accordance with applicable policies and procedures. The second phase specifically focused on the internal administrative controls over deposits for non-residential customers. The report that follows summarizes the results of the review.

SCOPE OF WORK

The audit was performed in two phases. The first phase included a review of billing and collection activities for the period January 2000 to January 2002. Annual billings for fiscal year 2000-2001 related to water and sewer services totaled approximately \$24 million. The second phase included a review of the internal administrative controls over the non-residential customer deposits for the period ending February 2003. Non-residential customer deposits held by the county for this period totaled \$264,108.00. All procedures, policies and laws affecting the internal controls over the water and sewer billing process including the deposit payments for all non-residential accounts were subject to review.

The audit included:

- Review of applicable policies, procedures, laws, and county ordinances;
- Review of utility agreements related to the sale of wholesale water, reclaimed water and sewer services;
- Review of non-residential customer deposits and refunds;
- Test for appropriate processing in accordance with management's procedures;
- Tests to verify that rates, fees, and charges were in compliance with the Board approved rate schedule;
- Interviews with county personnel; and,
- Any other procedures considered necessary under the circumstances.

The audit was performed by Gail Joubran and Bill Carroll.

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OVERALL EVALUATION

Water and Sewer is continuously striving to improve its business processes and demonstrates a commitment to service. The administrative controls over billing and collection process are adequate and operating in accordance with applicable laws and regulations. Rates, fees, and charges are in accordance with the approved rate schedule. There are, however, some opportunities to further strengthen the system of internal controls over non-residential customer deposits. Those opportunities are presented in this report.

FINDING NO. 1

The billing system is not in balance with the general ledger.

During fiscal year 2001, the Water and Sewer Division sent to County Finance a request to adjust the general ledger's accounts receivable balance by approximately \$460,000.00; and it also requested a reduction of the water and sewer revenue account by approximately \$441,000.00. These adjustments were simply not supported with documentation.

We also noted the billing system is not in balance with the general ledger for the months of January, February, and March of 2003. For January 2003, the billing system reported an account receivable (AR) balance of \$2,184,925.23 while the general ledger's AR was stated at \$2,008,859.17; a \$176,066.06 variance. The February 2003 billing system AR balance was \$2,341,211.44 and the general ledger AR was \$2,009,017.10; a variance of \$332,194.34. In March 2003, the billing system AR was \$2,191,782.29 and the general ledger AR was \$1,977,072.75; a variance of \$214,709.54.

By not reconciling the billing system records with the general ledger, there is no assurance that the county financial records are accurately stated.

Recommendation

Establish a procedure to reconcile the general ledger's accounts receivable account to the subsidiary billing system.

Management Response

The Department concurs partially with this finding. While the Utility has complete confidence the utility billing system (System) in fact bills at a 100% accuracy level consistent with the rates and charges established by the Board of County Commissioners (BCC), there remain issues with gaining a full understanding of the System's reporting capabilities. The utility has over the past fifteen years, the utility has balanced accounts receivable transactions to the general ledger (GL) maintained by County Finance.

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With the implementation of the new System, we face some unique challenges in understanding thoroughly this reporting process and related reconciliations. A completely revised procedure to reconciling the System to the GL and has been initiated and has been found successful in bridging the previous reporting gap. Summaries of the most recent reconciliations are attached for your review and concurrence. In summary, while some intermediate reporting and reconciliation issues existed efforts are completed with the implementation of a more thorough reconciliation of the System to the GL.

Internal Audit Comment

On August 5, 2003, the Water and Sewer Division furnished Internal Audit copies of its reconciliation of the System to the GL for the periods October 31, 2002 to June 2003. We commend the division for its proactive accomplishment.

FINDING NO. 2

Some opportunity exists to enhance the internal control environment.

Resolution No. 98-120 (a) states:

“an applicant shall pay an initial deposit prior to the initiation of water services or wastewater service for each equivalent residential unit to be serviced.”

In August 2002, one third party billing company (Conam Corporation) had its \$31,440.00 deposit with the county accidentally applied to another company's (Kimmins Corporation) account. As a result, when Kimmins closed out its account, it received a credit for \$31,440.00, the amount of the misposting.

Both of these companies had contracts with Sunshadow Apartments in Casselberry to bill its tenants for water and sewer charges. At the time of the misposting, the complex was transitioning from Kimmins to Conam. County management has requested Kimmins to repay the money sent to it in error.

To ensure that there are no more instances of misposting of payments, Water and Sewer requested that internal audit evaluate the controls over the deposits of non-residential customer payments. Although we believe that the internal controls are adequate, there are some opportunities to enhance the internal control environment. By strengthening the controls, assurance is provided that each customer's account is accurate.

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Recommendation

1. Add customer account numbers to applications for new service;
2. Require each check received for deposit have a unique company account number on the check and match to the account number assigned on the application;
3. Add a check off sheet to the application and require a self-evaluation procedure to ensure that the data was entered correctly;
4. Issue desk instructions for each desk and provide training; and,
5. Request the information services department to run a monthly report of all new deposits for the clerks to validate that deposits were recorded appropriately.

Management Response

The Department concurs with this finding and has or will implement all recommendations. Efforts to revise the application process and forms for utility service have been made. Procedures will be revised or drafted initially reflecting these processes and documents to be used.

FINDING NO. 3

A customer's deposit history is not always readily available for management review.

During Fiscal Year 1999, the county purchased a billing system from HTE Inc. This new system was purchased, in part, to ensure that the county was Y2K compliant.

The billing system has many features, which include a payment history screen (which shows the initial deposit), all monthly billings, and all payments applied to the account. The system tracks delinquent payments and automatically refunds deposits in accordance with county policy.

However once a deposit is refunded, a record of the initial deposit is no longer visible on the payment history screen. The record simply disappears. Also, when a refund is made, the system shows a cumulative refund amount in lieu of the component parts (deposits for water, sewer or irrigation).

Having a complete audit trail ensures that management and billing analysts refund the customer his initial deposit, not any more or less. Water and Sewer has made plans to discuss this issue with Information Services and obtain an estimate on how much it would cost to enhance the program.

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Recommendation

Enhance the program with the desired audit trail.

Management Response

The Department concurs with the importance of this finding. The System does maintain a complete deposit history. Utility billing staff and the Customer Accounting Supervisor (CAS) are now aware of how to access and review this information.

FINDING NO. 4

Some customers might be due a refund of deposit in accordance with Resolution No. 98-120.

Resolution No. 98-120 Section 8c states:

".... customers with good payment history accounts for the previous twelve (12) month period shall be entitled to a refund of deposits." For purposes of this section, a "good payment history shall be defined as an account with no i) disconnections for non-payment; ii) non sufficient funds checks charged to the account; or iii) delinquent payment notices."

Using these criteria, we identified 29 accounts that are either due a refund or require some action by the county. Internal Audit has provided a listing to the Water and Sewer billing manager for action. The total number of non-residential customers is approximately 2,800.

Recommendation

Proceed with plans to provide refunds to those customers who are entitled to them. Also, request a report from Information Services on an annual basis to check to see if others are due refunds in accordance with policy.

Management Response

The Department concurs with this finding and the recommended actions have been completed. The accounts identified through the audit process have been reviewed and appropriate deposits refunded in accordance with Resolution 98R-120.

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FINDING NO. 5

Some contractors are undercharged for fire hydrant basic service.

Pursuant to Resolution No. 98-120, Exhibit B, Schedule of Water Service Charges, the Fire Hydrant basic service charge is \$52.80 per month. Internal Audit reviewed monthly hydrant consumption usage calculations for the period January 2000 through February 2002 and found that seven construction contractors reviewed were billed at \$26.00 in lieu of the \$56.00 rate set by the Board of County Commissioners in Resolution No. 98-120. Environmental Services could offer no explanation as to why the billing system is charging this rate. For the period under review, these seven customers were undercharged by \$670.

Recommendation

Submit a request to Seminole County's Information Technologies Department to review the rate structure that is set up in the billing system to ensure compliance with Resolution No. 98-120.

Management Response

The Department concurs with this finding. The CAS will be contacting the Information Technologies Department regarding proper billing figures of the System.

FINDING NO. 6

Procedures to complement the division's updated business policies have not yet been published.

The county has not published a comprehensive manual that defines the county's policies and procedures for the Water and Sewer Billing Division. The team leader of this department has started the process by drafting written procedures for his department. These procedures, as well as related procedures, should be included as part of a formalized procedure manual.

Written policies, procedures, and instructions prevent misunderstandings, omissions and/or overlapping of important functions, and other situations, which might result in, weakened internal controls. They also can provide a standard for performance and are useful in training new employees.

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Recommendation

We suggest that management review, update, and complete a policies and procedures manual for the Water and Sewer Billing Division.

Management Response

The Department concurs with this finding. Over the past two years this has been a priority of the CAS with completion targeted for September 2003. While some revisions may defer final completion date, this project remains the highest priority of the Finance Manager and the CAS.

AUDITOR OBSERVATION

Water meters are read manually.

Each month, the county's meter readers go from house to house and from business to business, manually reading the water meters.

Although there is nothing wrong with reading meters manually, it is our understanding that some companies have implemented other methods of reading meters that may be less costly and might be more accurate. For example, we understand that a few water companies are now using wireless metering. Wireless metering is designed to transmit water meter reading data over distribution power lines using a carrier current.

We also understand that there is another variation of the wireless metering that involves meters being read as a computer-equipped van drives down the street. Water meters are fitted with a device to enable the water meter to be read remotely by wireless data transmission. These automatic meters eliminate the need for personnel to enter property to read water meters. There may be some benefit of having a committee explore the alternatives available and do a cost/benefit study to ascertain any benefit for the county and residents.

Management Response

The department concurs with this comment. We evaluate annually the feasibility of electronic meter reading products. While reading meters manually is labor intensive, the annual cost remains approximately \$100,000. As the meter reading team spends approximately 60% of the average work week reading, the balance is spent with customer based issues such as disconnects, initiating new service, other customer inquiries and route maintenance.

The most recent evaluation of implementing automated meter reading produced an estimate of approximately \$5,500,000 to retrofit the system for this program. With annual cost savings of only \$100,000 implementation would never recover the capital outlay. We will continue to monitor developments in automated meter reading as part of the annual budgetary process.

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