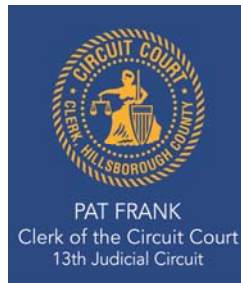




PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

COUNTY AUDIT
HILLSBOROUGH COUNTY, FLORIDA
UTILITY BILLING CONTROL ENVIRONMENT
REPORT # 311
SEPTEMBER 28, 2016



September 28, 2016

The Honorable Lesley “Les” Miller, Chairman
The Honorable Kevin Beckner
The Honorable Victor D. Crist
The Honorable Ken Hagan
The Honorable Al Higginbotham
The Honorable Sandra L. Murman
The Honorable Stacy R. White

Dear Chairman Miller and Commissioners:

The Audit Team performed an audit of the Utility Billing Control Environment (Audit Report # 311, dated September 28, 2016.) Responses to the Audit Team’s recommendations were received from the Director of Public Utilities and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of Public Utilities during this audit.

Sincerely,

Steve Hooper, CIA, CGAP, CCSA, CFE
Director of County Audit

CC: Pat Frank, Clerk of the Circuit Court
Mike Merrill, County Administrator
Lucia Garsys, Chief Development & Infrastructure Administrator
Dan Klein, Chief of Staff, Clerk of the Circuit Court
George Cassady, Director, Public Utilities Department
Rick VanArsdall, Chief Deputy, Finance and Budget, Clerk of the Circuit Court
Kevin Brickey, Management & Budget Office

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Public Utilities Department (PUD) mission is to provide outstanding, safe, and reliable core services to its customers and rate payers at the lowest possible cost. Among these services are:

- (1) the treatment, storage and distribution of potable drinking water;
- (2) the collection, treatment, and disposal of wastewater;
- (3) the collection, transfer, and disposal of solid waste; and
- (4) the recovery of recyclable materials.

At the time of the audit, there were 111,406 customer utility accounts serviced by PUD.

OBJECTIVE

The objective of the audit was to determine whether or not PUD's utility billing control environment is adequate.

SCOPE

The audit was conducted in accordance with the *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The Audit Team evaluated the internal control environment over PUD's utility billings by identifying the billing life cycle work flow (manual and electronic) and assessing the design and adequacy of the control environment (i.e., good business practices, efficiency, effectiveness, accountability, computer access, segregation of duties, and compliance, as applicable).

The Audit Team did not assess or test controls surrounding the meter reading process. The Audit Team focused on the billing processes that occur after the meter data is uploaded to the Account Information Management System (AIMS) - PUD's utility billing system.

OVERALL EVALUATION

PUD employees were responsive to the Audit Team's inquiries and provided the information requested in a timely and courteous manner. The Audit Team encountered knowledgeable and dedicated employees during the course of the audit.

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE
1	Customers are billed in a timely manner and revenues are properly recorded in the County financial system's general ledger (Oracle).	3
2	There is an opportunity to improve cashiering controls.	4
3	There is an opportunity to improve controls over the resolution of issues and/or problems identified during the meter-reading process.	6
4	Daily customer payment files are properly interfaced into the billing system.	9
5	Public Utilities' current collection agreement and process are in line with other government entities.	10

OPINION

The utility billing control environment is as at the formal (defined) maturity level. PUD management has developed processes and controls which reasonably ensure that utility customers are properly billed in a timely and efficient manner. Addressing the opportunities identified throughout this report will enhance the overall control structure of utility billings.

The exit conference was held on August 16, 2016.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

AUDITED BY

Steve Hooper, CIA, CGAP, CCSA, CFE, Director of County Audit
 Margaret Brown, CIA, Audit Manager
 Ben Everett, CPA, CIA, CFE, Senior Internal Auditor
 Greg McCullough, CPA, CIA, CFE, Senior Internal Auditor
 Lovonia Scott, CGAP, Internal Auditor II
 Linsey Brewer, Internal Auditor II

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1

Customers are billed in a timely manner and revenues are properly recorded in the County financial system's general ledger (Oracle).

The objective was to determine whether or not customers are billed in a timely manner and whether or not the revenues are properly recorded in the Oracle general ledger.

The Audit Team selected a sample of 57 customer water bills to determine whether or not:

- the customer was billed within 5 days of the date the meter was read, and
- the revenues generated from the customer billing were properly recorded into the general ledger.

Testing Results:

The Audit Team compared the date the meter was read to the date the customer was billed to ensure that the bill was dated no more than 5 days after the meter was read. The Audit Team also identified the customer account in AIMS and traced the amount billed to the account to AIMS generated revenue reports. Once reconciled, the revenue report totals were traced to the journal entry postings in Oracle's general ledger to ensure the revenue was recorded properly.

Of the 57 bills tested, all were billed within 5 days and all were recorded in the general ledger. No audit exceptions were found.

Based on the test work performed, customers are billed in a timely manner and revenues are properly recorded in the general ledger.

RECOMMENDATION

The Audit Team did not identify any material concerns that require management's corrective actions.

AUDIT COMMENT 2**There is an opportunity to improve cashiering controls.**

The objective was to determine whether or not the controls over the receipt and deposit of customer payments are adequate, and to determine whether or not the Public Utilities Department is in compliance with Board Policy 03.00.01.00, Petty Cash and Change Funds.

The Public Utilities Department (PUD) has two cashiering locations where customers may make payments in-person: (1) North Falkenburg Road and (2) Premier Drive.

Testing Results:

The Audit Team visited both cashiering locations and observed the morning opening process and the closeout process at the end of the day. In addition, the Audit Team conducted an unannounced cash count at the Northwest office to test whether or not the proper amount of cash was on-hand.

Based on the observation of the opening and closeout processes, the Public Utilities Department has implemented an adequate control structure over the receipt and deposit of customer payments.

During the unannounced cash count conducted at the Northwest office, the following was observed by the Audit Team:

- A change of custodian form was unavailable as supporting documentation of a new cash custodian.
- One of the cash drawers had a shortage of \$25.05.

RECOMMENDATION

To ensure compliance with Board Policy 03.00.01.00, consideration should be given to:

- Completing Change of Custodian forms when cash custodian duties are transferred to another employee.
- Performing opening and closing reconciliation of change funds to reduce the risk of cash shortage.

CLIENT RESPONSE

Concur. On the date of the initial audit 12/30/15 a copy of the cash custodian change form was not available on site for a former cashier who transferred to another Department..

Current cashier business practices have begun to be reviewed and revised to ensure cash custodian change forms are completed in a timely manner and adequate follow-up is conducted.

At this time we have obtained a copy of the cash custodian form on the former cashier with all required signatures and it is on file on site and with the Clerk's office.

CORRECTIVE ACTION PLAN

- 1. Update all cashier business practices regarding cash custodian change forms and that the latest version of the form is on file.*
- 2. Establish a procedure which outlines each step on how the cash custodian authorization and signature process is completed and to confirm a copy of the form is on file with the Clerk's office and with the Public Utilities Department.*

TARGET COMPLETION DATE

November 1, 2016

AUDIT COMMENT 3**There is an opportunity to improve controls over the resolution of issues and/or problems identified during the meter-reading process.**

The objective was to determine whether or not problems or issues identified during the meter reading process are addressed in a timely manner.

The AIMS system runs an automatic process to identify certain meter reads that indicate an unusually high or low amount of water usage, or no usage at all, otherwise known as high-lows and zeros, respectively. High-lows, zeros, and any other problems, such as "meter remarks" are compiled into a system-generated, daily report known as the "To-Do's" list. This list is to be reviewed and addressed by Public Utilities staff. The list is used to take corrective action within 5 business days for discrepancies such as meter misreads or faulty water equipment. If an issue cannot be resolved within the 5 day business deadline, it is PUD policy to bill the customer an estimated amount based on their typical average usage.

Testing Results:

The Audit Team selected a random sample of 25 entries from the To-Do's list for the following dates:

- Zeros - meter read date 1/14/2016 (5 selected)
- High-Lows - report created on 1/19/2016 (10 selected)
- Meter Remarks - meter read dates 1/19/2016 - 1/25/2016 (10 selected)

The Audit Team tested these 25 items. For each item tested, the Audit Team researched the customer's account in AIMS to determine whether or not the customer was billed and the issue was addressed by PUD within a reasonable amount of time (typically 5 business days). The following results were noted:

- For the five zero-read accounts tested, four (80%) were not addressed timely.
- For the sample of ten high-lows selected for testing, the Audit Team found that all ten accounts (100%) were billed and the issue was addressed by PUD within a reasonable amount of time.
- For the sample of ten utility accounts with meter remarks tested, all (100%) were addressed timely. One utility account (10%) was not back-billed for water usage, resulting in a loss of revenue of approximately \$160.

The Audit Team sought additional information from PUD management regarding the initial results of testing the zero-read sample. The Audit Team was informed that the To-Do's lists are

prioritized based on staffing and workload. PUD management stated that due to insufficient staffing, there are times when accounts with zero usage are not investigated to determine the cause. Accounts are still billed the base rates for water and sewer. There is a standing, self-imposed rule by PUD to not back-bill customers who have more than six months of zero meter reads. PUD management acknowledged that this may result in lost revenues because actual usage isn't identified and subsequently billed.

The Audit Team obtained a report from PUD for the period October 1, 2015 through May 18, 2016 (7.5 months). This report contained a list of customer accounts that were back-billed by PUD for estimated usage. Some of these accounts had an amount that was not back-billed due to the six-month rule, with the exact dollar amount shown. Based on an analysis of the data provided, the Audit Team found that the total revenue lost in the 7.5 month period due to the six-month rule was \$18,482.68. The Audit Team calculated a projected annual loss for fiscal year 2016 of approximately \$27,775.00.

Based on the audit work performed, the To-Do lists for High-Lows and Meter Remarks are being resolved and billed within a reasonable amount of time. However, there are instances of zero usage that are not being addressed which may result in a loss of revenue to the County (customers may not be being billed for water consumption).

RECOMMENDATION

Consideration should be given to the following:

1. Develop and implement written guidance that strategically addresses the timely resolution of zero-reads in an effort to reduce loss of revenues. This strategy should include a method of identifying legitimate zero-read utility accounts for future reference.
2. Develop and implement written guidance on a time schedule to address the items on the To-Do List.

CLIENT RESPONSE

1. *Concur.* Zero Gallon business process is in place and available upon request. Business process was most recently updated 06/09/2016 and is subject to continuous review as improvements are identified. The Information for identifying affected accounts is received from the report CM-ZEROGLRES. The expectation is that this report be worked daily. Dependencies exist that would result in delays or report not being worked such as shortages in internal workforce, field service requests for stoppage of field activities due to factors such as inclement weather, holidays, staff outages, and workload restrictions.
2. *Concur.* Priority for working To Do items had been established as of 4/28/2016 but was not codified into the business process. Expected completion times is also missing from the business process. During the same 7.5 month period there was also \$57,300.92 in revenue that was back-billed and recovered.

CORRECTIVE ACTION PLAN

- 1. Zero Gallon business process to be updated to heighten the priority level of review understanding certain limitations in workforce and field activities priority workload scheduling.*
- 2. The current business process for To Do items will be updated to include priority order and expected completion times; monthly report CM-UTIL (available upon request) was created as of 7/11/16. This will be used to monitor and ensure To Do completion times are met. CM-UTIL review steps will be added to the business process.*

TARGET COMPLETION DATE

- 1. October 2016*
- 2. October 2016*

AUDIT COMMENT 4**Daily customer payment files are properly interfaced into the billing system.**

The objective was to determine whether or not customer payments collected from outside vendors are properly posted to customer accounts in the AIMS system.

Outside vendors are used to collect payments from customers at sites not staffed by PUD. These outside vendors provide PUD with a daily data file that lists each customer payment received. The data file is uploaded into the AIMS system to credit the customer accounts payment.

Testing Results:

The Audit Team obtained a sample of vendor payment data files and reports generated from AIMS showing payments posted to customer accounts. The vendor data files were compared to the AIMS reports to determine whether or not customer payments received by vendors are properly interfaced and posted to the customer accounts in AIMS.

Customer payments received by vendors are being properly posted into the customer accounts in AIMS. No exceptions were noted.

RECOMMENDATION

The Audit Team did not identify any material concerns that require management's corrective actions.

AUDIT COMMENT 5**Public Utilities' current collection agreement and process are in line with other government entities.**

In February 2014, PUD contracted for collection services with a new vendor, DCS Enterprises, Inc., who was later acquired by Medical Recovery Specialists, LLC d/b/a DSG Collect. Their service fee is 10% of the amount collected.

The Audit Team obtained from PUD management the bid and agreement documents and reviewed them for reasonableness. The Audit Team compared the PUD agreement to agreements that other County departments use for collection services. The Audit Team determined that the collection services utilized by other county departments were not for the collection of bad debts, or the services were priced on a flat fixed rate. These agreements could not be used to evaluate the PUD's bad debt collection agreement.

To evaluate the PUD's bad debt collection agreement with similar agreements, the Audit Team contacted 9 other Florida counties and the City of Tampa to inquire about their processes of handling uncollected utility revenues. The Audit Team asked survey questions pertaining to their bad debt collection process and their use of third-party collection agencies.

Testing Results:

The results from the 10 government entities surveyed were compared to Hillsborough County's bad debt collection process.

- Of the 10 government entities surveyed, 8 (80%) utilize a third party collection agency to pursue uncollected utility revenues.
- Of the 8 government entities who utilize a collection agency, only 6 could provide the Audit Team with a recovery rate.
- Of the 6 government entities that provided a recovery rate, 3 identified a recovery rate higher than Hillsborough County. These 3 government entities had a third party collection arrangement in place for more than one year.

A table showing the results of the survey is shown in Appendix A.

PUD's existing bad debt collection process and agreement are in line with other government entities.

RECOMMENDATION

The audit tests did not identify any material concerns that require management's corrective actions.

APPENDIX A

Survey Results

COUNTY/CITY	ANNUAL UTILITY REVENUES*	PERCENTAGE OF BAD DEBT TO REVENUES	USES 3RD PARTY COLLECTION AGENCY	IF YES, THEN WHO	HOW LONG IN USE	RECOVERY RATE
<i>Hillsborough County</i>	<i>\$205.7 million</i>	<i>0.183%</i>	<i>Yes</i>	<i>Medical Recovery Specialists, LLC</i>	<i>1 year</i>	<i>12%</i>
Pinellas County	\$158.2 million	Less than 1%	No	N/A	N/A	N/A
Manatee County	\$105.3 million	1.50%	Yes	Professional Recovery Consultants	6 months	4.92%
Sarasota County	\$99.5 million	0.236%	Yes	Gulfcoast Collection Bureau	7 years	21%
Pasco County	\$98.7 million	(1)	Yes	NCS Plus	2 years	est. 30% to 40%
Orange County	\$155.0 million	(1)	Yes	Penn Credit	at least 10 years	9.86% (2015)
Polk County	\$59.0 million	(1)	Yes	NCS Plus	4 years	27%
Palm Beach County	\$164.0 million	(1)	Yes	Penn Credit	at least 13 years	(1)
Broward County	\$115.8 million	(1)	No	N/A	N/A	N/A
Lee County	\$100.8 million	(1)	Yes	Professional Adjustment Corporation (PAC)	14 years	(1)
City of Tampa	\$203.9 million	0.7% to 1.0%	Yes	Merchants	40 years	est. 3% to 7%

* includes both water and wastewater/sewer and was obtained from the municipality’s 2014 CAFR (Comprehensive Annual Financial Report).

N/A = not applicable

(1) = survey contact person could not provide an answer