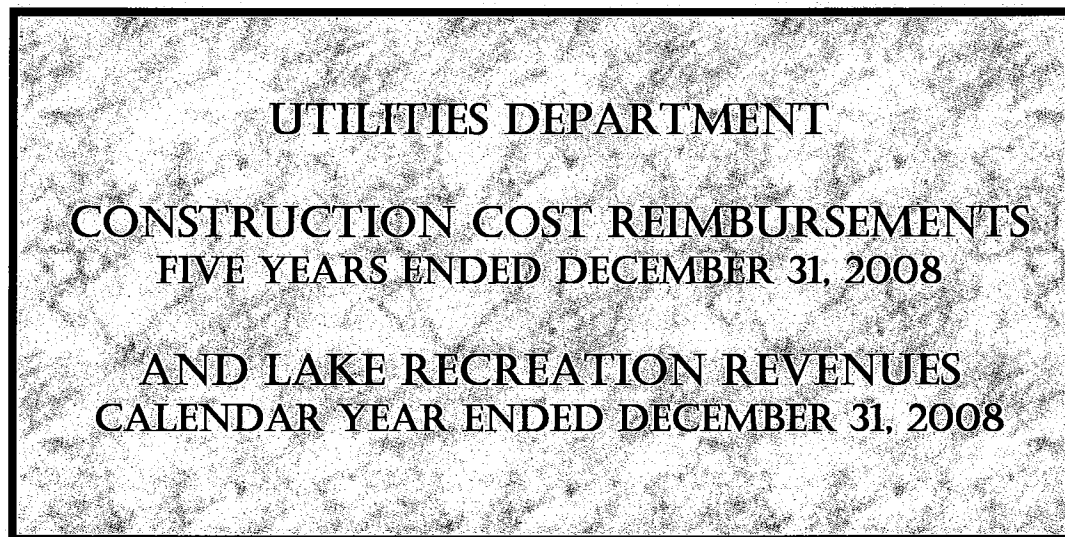


CITY AUDITOR
Jim Williamson, CPA, CIA

AUDIT TEAM

Matt Weller, CPA, Assistant City Auditor
Brett Rangel, MS, CIA, Audit Manager
Pamela Martindale, MBA, Senior Auditor



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The City of
OKLAHOMA CITY
OFFICE OF THE CITY AUDITOR

August 18, 2009

The Mayor and City Council:


The Office of the City Auditor has completed an audit of the Utilities Department – Construction Cost Reimbursements and Lake Recreation Revenues. The objectives of this audit were to:


- Evaluate the adequacy and determine the effectiveness of controls reasonably ensuring the accuracy and completeness of construction cost reimbursements during the five years ended December 31, 2008.
- Evaluate the adequacy and determine the effectiveness of controls reasonably ensuring the accuracy and completeness of lake recreation revenues during the twelve months ended December 31, 2008.

Based upon the results of our audit, we believe that:

- Construction cost reimbursements were materially accurate and complete and that related controls were reasonably adequate.
- Lake recreation revenues were materially accurate and complete and that related controls were reasonably adequate.

All comments, recommendations, suggestions, and observations arising from our audit have been discussed in detail with appropriate members of management. These discussions were held to assure a complete understanding of the content and emphasis of the items in this report. Management's responses to the comments and recommendations are included with this report.


Jim Williamson
City Auditor


Matt Weller
Assistant City Auditor


Brett Rangel
Audit Manager

**UTILITIES DEPARTMENT
CONSTRUCTION COST REIMBURSEMENTS
AND LAKE RECREATION REVENUES**

AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

The objectives of this audit were to:

- Evaluate the adequacy and determine the effectiveness of controls reasonably ensuring the accuracy and completeness of construction cost reimbursements during the five years ended December 31, 2008.
- Evaluate the adequacy and determine the effectiveness of controls reasonably ensuring the accuracy and completeness of lake recreation revenues during the twelve months ended December 31, 2008.

The Oklahoma City Water Utilities Trust's (OCWUT) primary revenue source is from providing water, wastewater and solid waste services in the metropolitan area. OCWUT also receives a number of miscellaneous revenues averaging \$6 million a year. We identified all miscellaneous OCWUT revenues managed by the Utilities Department and interviewed key employees to determine the nature and extent of the related revenue transactions and management controls (e.g., transaction size and frequency; manual and automated record types; collection and deposit sites; segregation of responsibilities; review and reconciliation procedures; etc.). Based on these discussions, construction cost reimbursements and lake recreation revenues were selected for a more detailed assessment.

Procedures performed during our audit included management interviews; reviews of construction agreements with other entities in the area (e.g., municipalities, state agencies, etc.); reviews of automated financial records, supporting documentation and engineering project files; and physical inspections of lake stall and permit inventories and records. Assessing the reasonableness of construction cost agreements with other entities or assessing the effectiveness of construction project management was outside the scope of this audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, 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. Each recommendation included in this report is immediately followed by management's response. Management's responses are attached to this report in their entirety.

CONSTRUCTION COST REIMBURSEMENTS

Results of our audit indicate that construction cost reimbursements were materially accurate and complete and that related controls were reasonably adequate.

Other entities occasionally request the Utilities Department to construct water or wastewater lines for a new service area or relocate existing lines (e.g., wholesale utility customers may request line extensions or the Oklahoma Department of Transportation may request line relocations, respectively). Feasible requests result in formal agreements outlining various terms and the portion of construction costs ultimately paid by each party. In accordance with the terms of the agreement, the Utilities Department may manage and fund project construction and collect the requesting entity's share of costs before, during or after construction.

After completion of a project, the engineering project manager (project manager) is responsible for determining total reimbursable costs (based upon final costs and terms of the agreement) and verifying payments deposited with the City Treasurer. The engineering manager is responsible for final project review. Though generally submitted to Utilities Department administrative staff, requesting entities occasionally submit payments directly to project managers.

During our five-year audit period, we identified approximately \$18 million of reimbursements expected from 15 active construction projects. Seven projects (relating to \$13 million of reimbursements) were completed. We selected five completed projects, with related reimbursements totaling approximately \$8 million, for a more detailed review. During our review of these project files, we noted two projects for which the Utilities Department did not detect apparent overpayments from the requesting entity, totaling \$220,000. Files for one of these two projects did not evidence comparison of total reimbursable costs and total payments received. Neither project file evidenced final review by the engineering manager.

Recommendation 1

To appropriately segregate billing and collection responsibilities, project managers should be prohibited from handling payments (e.g., accepting payments in person or receiving payments in unopened mail) from requesting entities.

Utilities Department Response 1

Agree. We will develop and implement a new business process for handling projects that will result in payments to the Oklahoma City Water Utilities Trust, City Utilities Department or other related entity by November 30, 2009. This new process will include the provision of specific instructions to other parties that they only provide payments to the Administration Division, Finance Section. Payment remittance instructions will be incorporated into the Cost Participation Policy A and B forms and agreements with contractors/developers and claims reimbursement submittal documents to the Oklahoma Department of Transportation and other agencies. Engineering Division project managers will be trained on the new business processes and assist in the development of the new forms and claims reimbursement submittal documents. A copy of all completed Policy A and B forms and claims reimbursement submittal documents

will be provided to the Administration Division, Finance Section so that this group can track pending receipts.

Recommendation 2

Construction project files should contain evidence of agreement between reimbursements due from requesting entities and related payments deposited with the City Treasurer, as well as evidence of the engineering manager's final review.

Utilities Department Response 2

Agree. We will develop a new business process and standard claims tracking document by October 31, 2009 for use by the project managers to record the reimbursements due and periodic claims they have submitted for reimbursement by date. Since the project managers will no longer receive payments, the paper project files in the Engineering Division will not contain payment receipt information. However, this new business process will also include a role for the Administration Division, Finance Section, to process documents to record payments/reimbursements due OCWUT/City in PeopleSoft. As actual payments are received, they will be credited in PeopleSoft to offset these amounts due. Engineering Division project managers will be provided read access to PeopleSoft so they and the Administration Division project claims processing personnel may monitor cash receipts by project on an ongoing basis.

[Continued on the next page]

LAKE RECREATION REVENUES

Results of our audit indicate that lake recreation revenues were materially accurate and complete and that related controls were reasonably adequate.

OCWUT owns property and facilities at Lakes Hefner and Draper and receives revenue from related recreational activities. The following table highlights the activities, responsibilities and controls relating to the lake revenues reviewed:

LAKE HEFNER	LAKE DRAPER
<ul style="list-style-type: none"> Revenues include wet and dry boat stall rentals; bulk sales of boat and off-road vehicle permits; and boat wash fees. 	<ul style="list-style-type: none"> OCWUT revenues include wet and dry boat stall rentals and individual camping permit sales.¹
<ul style="list-style-type: none"> Lake revenues are managed and collected by the Oklahoma City Police Department (OCPD). 	<ul style="list-style-type: none"> The Utilities Department contracted lake revenue management and collection responsibilities to JTD Recreations, LLC.
<ul style="list-style-type: none"> OCPD collected \$340,000 of OCWUT lake revenues during calendar year 2008. 	<ul style="list-style-type: none"> JTD collected \$40,000 of OCWUT lake revenues during calendar year 2008.
<ul style="list-style-type: none"> The City's General Fund funds the majority of administrative expenses relating to lake revenues.² It is unclear whether OCWUT reimburses the General Fund. 	<ul style="list-style-type: none"> OCWUT funds the majority of administrative expenses relating to lake revenues through contract negotiations, including a fixed management fee.
<ul style="list-style-type: none"> Utilities Department employees do not periodically perform physical inspections of Lake Hefner or Draper boat stall and permit inventories and records to verify the accuracy and completeness of deposited revenues and compliance with relevant lake regulations, such as stall rental or JTD contract requirements (e.g., record retention; timeliness of revenue submissions; boat navigability and permitting; current stall contract, etc.). 	

During our review of calendar year 2008 lake recreation revenues, we noted approximately 90 Draper stalls, for which customer rental payment had not been collected and/or submitted to the Utilities Department (\$6,000 or 15%) and a few other Draper contract violations and/or control weaknesses (e.g., discarded camping permit records; expired stall contracts; un-navigable boats in stalls; inoperable vehicles in stalls; etc.).

During a subsequent review of calendar year 2007 Draper stall activity, we noted an additional \$1,800 to \$2,600 of rental payments, which may not have been submitted to the Utilities Department. However, as a result of discarded rental contracts and related records, calendar year 2007 revenues could not be reasonably confirmed.

¹ Though additional permits, concessions and other items are sold at Lake Draper, these revenues are contractually retained by the independent contractor responsible for Lake Draper revenue management and collection.

² The General Fund funds one full-time OCPD civilian position (costing nearly \$69,000 per year), provides and maintains the shared Lake Hefner Ranger Station facility, and purchases supplies relating to recreation revenue management and collection responsibilities at Lake Hefner.

