

AUDIT TEAM

Jim Williamson, CPA, CIA, City Auditor
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**UTILITIES DEPARTMENT
WHOLESALE WATER REVENUES**

JANUARY 30, 2018

MAYOR AND CITY COUNCIL

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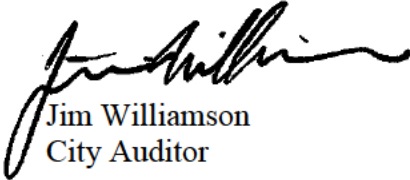
January 30, 2018

The Mayor and City Council:

The Office of the City Auditor has completed an audit of the Utilities Department Wholesale Water Revenues.

Based on the results of our audit, we believe that wholesale water revenues were materially accurate, complete, and consistent with applicable contracts and Ordinances during the nine months ended September 30, 2017.

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


Jim Williamson
City Auditor


Brett Rangel
Audit Manager

**UTILITIES DEPARTMENT
WHOLESALE WATER REVENUES**

AUDIT OBJECTIVE, BACKGROUND, SCOPE, AND METHODOLOGY

The objective of this audit was to evaluate the adequacy and determine the effectiveness of management controls ensuring wholesale water revenues were accurate, complete, and consistent with applicable contracts and Ordinances during the nine months ended September 30, 2017.

As a regional service provider, the primary mission of the Utilities Department is to provide water, wastewater, and solid waste services to metro area residents, businesses, and other communities. The Utilities Department projects significant growth in services to surrounding communities over the next 30-40 years. Currently, the City of Oklahoma City and the Oklahoma City Water Utilities Trust contracts with 12 surrounding communities for wholesale water services. During our nine-month audit period, billings to these communities totaled about \$8.4 million.

Procedures performed during this audit included interviews with Utilities Department personnel; a review of relevant customer contracts, City Ordinances, and fee schedules; and an assessment of customer meter readings, billings, collections, and related management controls. We did not audit retail or non-water services; nor did we audit the adequacy of customer rates or meter replacements.

We conducted this performance 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.

RESULTS OF WORK PERFORMED

The results of our audit indicate that wholesale water revenues were materially accurate, complete, and consistent with applicable contracts and Ordinances during the nine months ended September 30, 2017.

The following recommendations are intended to provide constructive suggestions to improve compliance with customer contracts and help ensure the accuracy and completeness of billings and collections. Management responses are included in the body of this report and attached to the report in their entirety.

Comment 1

Monthly bills include a normal usage charge and a higher, excess usage charge when exceeding a customer-selected monthly usage threshold. However, meters are not read at month end; and the number of days read rarely equals the number of days in the billed month. Though rare, this may result in usage charges inconsistent with contract terms.¹ In such instances, management adjusts these bills if a customer questions the billing.

Management has taken steps to transition customers to monthly billings based on an average daily (versus a monthly) excess usage threshold. This would eliminate the need for billing adjustments when the number of days read does not equal the number of days in the billed month.

Recommendation 1

Management should continue efforts to transition customers to monthly billings based on an average daily excess usage threshold. For those customers unwilling to transition, management should manually adjust billings prior to mailing to appropriately reflect usage charges consistent with the number of days included in the billing cycle.

Utilities Department Response 1

Agree with modifications. Management plans to meet with wholesale customers in 2018 requesting a move to the Daily Reservation calculation, which is beneficial to both OCWUT and customers. We will continue to use the current process for those customers declining to move to the new billing approach.

OTHER COMMENT

Comment 2

Management uses SAP to process and record customer billings and collections. Management controls are designed to help ensure SAP billings and collections are complete and accurate. Manual billings and collections for two contracted customers² have not been added to SAP. Management has designed manual controls to review these customers' payments for completeness. However, the completeness review is performed employees who also receive

¹ Excess usage charges could be higher (or lower) than those contemplated in the contract if the number of days of usage read is more (or less) than the number of the billed month's days (on which the excess usage threshold is based).

² Combined billings and collections for a raw water and a treated wastewater customer totaled \$295,000 during our audit period.

and deposit customer payments. Employees responsible for receiving, depositing, and verifying the completeness of payments could embezzle the payments without timely detection.

Recommendation 2

To help ensure the accuracy and completeness of customer payments, management should add these customers to SAP. Alternatively, management should have these customers send their payments to the City Treasurer's Office or to other Utilities Department staff not responsible for payment completeness reviews.

Utilities Department Response 2

Agree with recommendation. Management plans on having the OCWUT customer billed in SAP immediately once the legal issues are resolved. For the MCA customer, the Trust Section will continue to bill these customers but the Financial Operations Section will receive these checks and make the deposits, for segregation of duties until such time these invoices are able to be processed in SAP. This change has already been implemented.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, City Auditor
THROUGH: James D. Couch, City Manager
FROM: Chris Browning, Utilities Director
DATE: January 25, 2018
SUBJECT: Audit #17-06 - Wholesale Water audit – OCWUT and MCA

1. Agree with modifications. Management plans to meet with wholesale customers in 2018 requesting a move to the Daily Reservation calculation, which is beneficial to both OCWUT and customers. We will continue to use the current process for those customers declining to move to the new billing approach.
2. Agree with recommendation. Management plans on having the OCWUT customer billed in SAP immediately once the legal issues are resolved. For the MCA customer, the Trust Section will continue to bill these customers but the Financial Operations Section will receive these checks and make the deposits, for segregation of duties until such time these invoices are able to be processed in SAP. This change has already been implemented.

Thank you for your professional review of this program.