

AUDIT TEAM

Jim Williamson, CPA, CIA, City Auditor

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**UTILITIES DEPARTMENT
UTILITY BILLINGS AND COLLECTIONS**

JULY 31, 2012

MAYOR AND CITY COUNCIL

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July 31, 2012

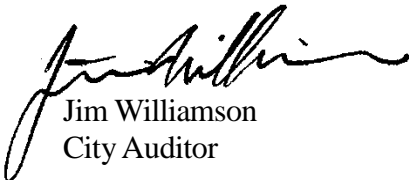
The Mayor and City Council:

The Office of the City Auditor has completed an audit of non-contracted Oklahoma City utility revenues billed and collected by the Utilities Department. Based upon the results of our audit, we believe that:

- Utility billings and collections were materially accurate and complete during the 12 months ended February 29, 2012 and that
- Related management controls were reasonably adequate and effective as of February 29, 2012.

We did not audit billings or collections relating to contractual agreements, EMSA TotalCare or other miscellaneous fees. In addition, we did not verify the accuracy of total allocations or transfers to various business areas.

The content and emphasis of the items in this report have been discussed with appropriate management representatives to assure a complete understanding of the observations arising from our audit. Management responses are attached to this report in their entirety.


Jim Williamson
City Auditor


Brett Rangel
Audit Manager

UTILITIES DEPARTMENT UTILITY BILLINGS AND COLLECTIONS

AUDIT OBJECTIVE, BACKGROUND, SCOPE AND METHODOLOGY

The objectives of this audit were to evaluate the adequacy and determine the effectiveness of controls ensuring the accuracy and completeness of non-contracted Oklahoma City utility billings and collections during the 12 months ended February 29, 2012.

The Utilities Department (Utilities) processes about 208,000 bills a month. Billed amounts are based on standard Council approved fee schedules or other contractual arrangements. Monthly billings relate primarily to water, waste water, solid waste and storm water drainage utility fees; while the remaining billings relate to EMSA TotalCare and other miscellaneous fees and charges. Collected revenues are deposited with the City Treasurer’s Office and ultimately transferred to various receiving business areas, including the Oklahoma City Water Utilities Trust (OCWUT), the Oklahoma City Environmental Assistance Trust (OCEAT), the Emergency Medical Services Authority (EMSA), and the Oklahoma City Storm Water Drainage Utility Fund.

As depicted in Table 1, the scope of our audit was non-contracted, Oklahoma City utility revenues billed through Utilities’ new utility billing system (SAP) implemented in June 2009. We did not audit billings or collections relating to contractual agreements, EMSA TotalCare or other miscellaneous fees. In addition, we did not verify the accuracy of total allocations or transfers to the various business areas.¹

TABLE 1

SAP BILLINGS: YEAR ENDED FEBRUARY 29, 2012		
Audited Oklahoma City Utilities	\$228,215,761	88.8%
Water Utility (OCWUT)	103,535,413	40.3%
Wastewater Utility (OCWUT)	70,304,443	27.3%
Solid Waste Utility (OCEAT)	40,433,286	15.7%
Storm Water Drainage Utility (OKC)	13,942,619	5.5%
Not Audited	\$ 28,845,410	11.2%
Contracted Services (OCWUT/OCEAT)	21,147,231	8.2%
EMSA TotalCare (EMSA)	7,252,203	2.8%
Other (OCWUT)	445,976	0.2%
Total SAP Billings	\$257,061,171	100.0%

Procedures performed during our audit included management interviews; reviews of applicable fee schedules and other authoritative statutes, ordinances and management policies; reviews of SAP billing, collection, adjustment, and account delinquency processes and procedures; assessments of related management controls and exception reporting; analyses of SAP account details, including bad debt; and reviews of selected SAP transactions and supporting documents.

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.

¹ We were able to verify the allocation of selected customer payments to the various business areas in SAP. However, based on our overall assessment of the utility billing and collection control environment and due to the complexity of SAP programming, the development of ad hoc reporting necessary to verify the accuracy and completeness of total daily amounts allocated to each respective business area was not deemed cost effective for this audit.

RESULTS OF WORK PERFORMED

Results of our audit indicate that utility billings and collections were materially accurate and complete and that related controls were reasonably adequate and effective.

Additional analysis would help determine the feasibility of billing an estimated \$790,000 in storm water drainage utility fees for 13,000 unoccupied properties.² To address federal mandates and promote public health, safety and welfare, City Ordinances authorize the Public Works Department (Public Works) to administer the City's storm water drainage system and collect fees from system users at developed, non-governmental properties. The Storm Water Drainage Utility Fund provides OCWUT a proportionately determined chargeback of more than \$750,000 per year to bill and collect nearly \$14 million in annual storm water drainage fees. Owners of unoccupied properties are currently not billed. Although the new SAP billing system addresses some previous billing limitations, many factors and challenges remain, which could impact collectability at unoccupied properties.

Recommendation 1

Public Works should work with Utilities and the Municipal Counselor's Office to assess the cost/benefit of billing storm water drainage fees for unoccupied properties, minimally considering projected collection ratios, projected cost increases (e.g., staffing, training, programming, etc.), and billing frequency and efficiency.

Public Works Response 1

Public Works agrees with the recommendation. Public Works also acknowledges that significant effort on the part of City and SAP system support staff will be required to develop and implement a means by which to bill unoccupied properties which may have a significant cost.

Public Works and Utilities Department staffs have determined that it will require approximately one year to properly assess the feasibility and cost-effectiveness of billing vacant properties. Several issues including possible legislative changes, staffing requirements, business process changes, and ordinances amendments will need to be reviewed before a definitive answer can be provided. An answer regarding the billing of vacant properties will be provided by July 1, 2013.

Utilities Response 1

Agree with modification. Historically, utility customers occupying premises have been billed for services received such as billing water service based on metered consumption. Storm water drainage service charges were added to these existing customer accounts at occupied premises. Should this billing practice change to include property owners of unoccupied premises for storm water drainage while remaining the same for other billed services, it could become overly

² Estimates are based on a conservative count of 13,000 (of a possible 19,000) unoccupied properties and the lowest FY 2012 residential storm water drainage fee of \$5.06 per month.

cumbersome. Substantial business process changes would need to be made for employees and the computer system would need to be redesigned to accommodate this new procedure. It could also cause significant dissatisfaction among property owners that would start receiving drainage service billings for unoccupied properties. We will await request by the Audit-designated lead department (Public Works) to initiate participation in this assessment and timely resolve this concern.

More timely and complete referrals to the collection agency could improve overall collections. Utilities' overall collection ratio is more than 97%. Despite the excellent collection ratio, Utilities annually refers over \$1.5 million in bad debt to the collection agency, of which 17% is generally expected in subsequent collections.

- *Since June 2009, delinquent account referrals and related collections have been delayed. To ensure the validity of referrals (and preceding recovery methods) in the new system, closed account referrals were discontinued after the June 2009, implementation of SAP. Utilities partially resumed closed account referrals in April 2011, and was continuing to work toward pre-implementation referral and collection levels as of February 29, 2012.*
- *Prior to October 2011, collection agency referrals did not include active customer accounts. Though a few active accounts had been referred to the collection agency beginning in October 2011, regular active account referrals had not been attained as of February 29, 2012.*

Recommendation 2

Utilities should continue working toward more regular referrals to the collection agency, including active delinquent accounts.

Utilities Response 2

Agree with recommendation. By September 2012, a new collections contract will be presented to Council for consideration. A professional services request for proposals process is now underway. Upon approval of this new contract, the new collections agency will be responsible for consistently pursuing collections from customers in the monthly delinquent accounts referral file provided by the Utilities Department, as has been past practice with previous firms. The Audit noted interruption in routine, consistent collection activities. This disruption was necessitated to allow for converting accounts from the legacy DEC billing system to the new SAP system in June 2009 and the restarting of new billing and collections processes thereafter. This delay ensured that customers did not experience erroneous collection actions while new billing system ramp-up account verification and dunning procedures were put in place.

More complete and accurate quantification of bad debt relating to accounts without water service could improve the feasibility of legislation leading to improved collections via statutory property liens. In addition to bad debt previously referred to the collection agency, un-referred year-old delinquent account balances totaled \$5 million as of February 29, 2012. As depicted in Table 2, a disproportionate share (81%) of these account balances relates to unpaid solid waste (66%) and storm water drainage (15%) utility fees, compared to their respective percent of total billings (24%).

TABLE 2

YEAR-OLD ACCOUNT BALANCES: AS OF 02/29/12			
Balances Outstanding 1+ Years		% Balance	% Billing ^A
Solid Waste	\$3,342,072	66%	18%
Storm Water Drainage	772,625	15%	6%
Water	503,553	10%	45%
Waste Water	456,115	9%	31%
Total	\$5,074,365	100%	100%

^A Based on audited utility billings, as presented in Table 1.

As suggested by management and the disproportionate share identified above, most unpaid balances likely relate to accounts without water service, the cut-off of which would otherwise be used to encourage customer payments. Due to a lack of standard SAP reports reflecting delinquent account balances by type, the value of unpaid balances specifically relating to accounts without water service could not be reasonably quantified.

As with Code Enforcement demolition and weed cutting services, solid waste services are provided – regardless of whether the citizen pays the related costs – to promote public health, safety and welfare. However, unlike Code Enforcement services, State legislation does not currently allow Utilities to use statutory property liens to recover non-payment of solid waste or other utility billings. Utilities has presented this statutory issue for consideration during several of the City’s legislative issues sessions. Their most recent 2007 memorandum identified \$1 million of solid waste service fees in arrears, but did not specify the type of account balances included or the time period balances were outstanding.

Recommendation 3

Once regular and complete referrals to the collection agency stabilize (see Recommendation 2), Utilities should assess the materiality and trends of total bad debt relating to accounts **without** water service and work with the Municipal Counselor and City Manager’s Office to determine the feasibility of successfully pursuing State legislation, allowing collection of utility billings via statutory property liens. To facilitate more targeted quantifications of bad debt and unpaid balances, Utilities should consider developing ad hoc SAP reports reflecting delinquent account balances by type (e.g., accounts without water service).

Utilities Response 3

Agree with recommendation. By December 2012, the Utilities Department will have worked with the Municipal Counselor and City Manager’s Office to determine the feasibility of successfully pursuing State legislation allowing collection of utility billings via statutory property liens. The Utilities Department will also obtain a quote from the private application support firm for developing the ad hoc SAP reports recommended by the Audit to individually identify delinquent balances in the categories determined beneficial through this initiative. Should legislation be successful, the ad hoc reports will be developed.

Separating collection agency check handing from accounts receivable posting responsibilities would improve accountability and reduce the risk of theft. During the audit period, the contracted collection agency submitted nearly \$100,000 in customer payments to Utilities. Payments are submitted via check and received by the same Utilities employee responsible for:

- Depositing the check with the City Treasurer's Office.
- Posting the payments to SAP customer accounts receivable.
- Receiving/forwarding the collection agency invoice to initiate payment of related fees owed.

These combined responsibilities increase the risk of an undetected theft of collection agency checks.

Recommendation 4

Utilities should request the collection agency to send payments directly to the City Treasurer's Office, preferably via electronic funds transfer. Alternatively, check handling and accounts receivable posting responsibilities should be separated.

Utilities Response 4

Agree with modification. By October 2012, it is anticipated that the new collections agency contract will be in use and we will have begun receiving routine collections payments. Under this new arrangement, the collections agency will be providing payments electronically using the same electronic funds payment method established for other automated payment processors, removing this concern. From time to time, there may be a need to continue receiving some payments manually due to extenuating circumstances beyond our control for which automated processes are not able to address.

Separating cashiers' customer account access from collection responsibilities would improve accountability and reduce the risk of theft. Utilities cashiers collect about \$25 million in cash and checks per year. As of February 29, 2012, all seven active cashiers also had the authority to adjust SAP customer account balances. Though no cashier adjustment activity was noted during the period, such authority increases the risk of an undetected theft of cashier collections.

Recommendation 5

Utilities should remove customer account adjustment authority from employees responsible for maintaining and depositing cash drawer receipts.

Utilities Response 5

Agree with modification. Staff is currently working to define alternative services that would allow elimination of walk-in services and resolution of the Audit concern. We anticipate completion of this review in 2012. Walk-in service numbers have declined in the last three years to just 1.5

percent of our customers, making additional duty assignments necessary to maintain workgroup productivity while providing adequate counter staffing for peak times.

Periodic exception reports and reviews of standard utility fees could improve the completeness of automated billing and related revenues. Though billed amounts may vary across properties, billing criterion for storm water drainage and solid waste fees lend themselves to reasonably efficient verification that automated billing has been set up. During our audit, Utilities staff developed exception reports and investigated a sample of accounts identified without automated billing. We reviewed the work of Utilities staff and reasonably determined that the number of properties without automated billing for these fees were few and immaterial. Though most storm water drainage and solid waste billings range from \$5 to \$20 a month, failure to set up automated billing could result in a long term, systemic loss of revenue.

Recommendation 6

Utilities should continue using their recently created exception reports to identify and correct storm water drainage and solid waste billing errors on an annual basis.

Utilities Response 6

Agree with recommendation. Current procedures are already in place to have the Utility Customer Services Account Auditor position review reports on an ongoing basis to determine whether any service provided to customers is not being properly billed and to immediately resolve such concerns. By standard practice, Utilities staff are charged with pursuing actions to return each manually handled account to an “automated billing mode” as soon as practical.

OTHER COMMENT

Document storage and maintenance improvements could enhance contract monitoring. As depicted in Table 1, Utilities bills over \$21 million a year in utility billings relating to contractual agreements (i.e., water, waste water, and solid waste). While planning our audit, we noted contract storage and maintenance responsibilities were not sufficiently communicated and/or implemented to allow an efficient review of contract compliance. However, Utilities began centralizing contract storage, which should facilitate more timely renegotiations and billing-related contract compliance.

Recommendation 7

Utilities should continue procedural improvements for storing and maintaining retail and wholesale service contracts.

Utilities Response 7

Agree with recommendation. By October 2012, staff will have conducted a training program with Utility Customer Services supervisors and those personnel assigned to perform “commercial desk” responsibilities concerning special contracts characteristics and how to read and correctly interpret these contracts for billing administration purposes. In addition, the Utilities Department’s Administration Division will assign staff to conduct an internal review of special contracts each April to ensure they are being billed correctly.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, Audit Manager

THROUGH: James D. Couch *JDC* City Manager

FROM: Marsha Slaughter, Utilities Director *mslaughter*

DATE: July 18, 2012

SUBJECT: Utilities Billings and Collections Audit No. 12-02

The following are management's responses to recommendations outlined in the Utility Billings and Collections Audit Report No. 12-02 provided by the City Auditor on July 2, 2012:

1. Agree with modification. Historically, utility customers occupying premises have been billed for services received such as billing water service based on metered consumption. Storm water drainage service charges were added to these existing customer accounts at occupied premises. Should this billing practice change to include property owners of unoccupied premises for storm water drainage while remaining the same for other billed services, it could become overly cumbersome. Substantial business process changes would need to be made for employees and the computer system would need to be redesigned to accommodate this new procedure. It could also cause significant dissatisfaction among property owners that would start receiving drainage service billings for unoccupied properties. We will await request by the Audit-designated lead department (Public Works) to initiate participation in this assessment and timely resolve this concern.
2. Agree with recommendation. By September 2012, a new collections contract will be presented to Council for consideration. A professional services request for proposals process is now underway. Upon approval of this new contract, the new collections agency will be responsible for consistently pursuing collections from customers in the monthly delinquent accounts referral file provided by the Utilities Department, as has been past practice with previous firms. The Audit noted interruption in routine, consistent collection activities. This disruption was necessitated to allow for converting accounts from the legacy DEC billing system to the new SAP system in June 2009 and the restarting of new billing and collections processes thereafter. This delay ensured that customers did not experience erroneous collection actions while new billing system ramp-up account verification and dunning procedures were put in place.
3. Agree with recommendation. By December 2012, the Utilities Department will have worked with the Municipal Counselor and City Manager's Office to determine the feasibility of successfully pursuing State legislation allowing collection of utility billings

via statutory property liens. The Utilities Department will also obtain a quote from the private application support firm for developing the ad hoc SAP reports recommended by the Audit to individually identify delinquent balances in the categories determined beneficial through this initiative. Should legislation be successful, the ad hoc reports will be developed.

4. Agree with modification. By October 2012, it is anticipated that the new collections agency contract will be in use and we will have begun receiving routine collections payments. Under this new arrangement, the collections agency will be providing payments electronically using the same electronic funds payment method established for other automated payment processors, removing this concern. From time to time, there may be a need to continue receiving some payments manually due to extenuating circumstances beyond our control for which automated processes are not able to address.
5. Agree with modification. Staff is currently working to define alternative services that would allow elimination of walk-in services and resolution of the Audit concern. We anticipate completion of this review in 2012. Walk-in service numbers have declined in the last three years to just 1.5 percent of our customers, making additional duty assignments necessary to maintain workgroup productivity while providing adequate counter staffing for peak times.
6. Agree with recommendation. Current procedures are already in place to have the Utility Customer Services Account Auditor position review reports on an ongoing basis to determine whether any service provided to customers is not being properly billed and to immediately resolve such concerns. By standard practice, Utilities staff are charged with pursuing actions to return each manually handled account to an "automated billing mode" as soon as practical.
7. Agree with recommendation. By October 2012, staff will have conducted a training program with Utility Customer Services supervisors and those personnel assigned to perform "commercial desk" responsibilities concerning special contracts characteristics and how to read and correctly interpret these contracts for billing administration purposes. In addition, the Utilities Department's Administration Division will assign staff to conduct an internal review of special contracts each April to ensure they are being billed correctly.

Thank you for reviewing this program.

pc:
Bret Weingart, Assistant Director
Peet Loessberg, UCS Superintendent




MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, Audit Manager

THROUGH: James D. Couch ^{JDC} City Manager

FROM: Eric J. Wenger, P.E., Director 
Public Works / City Engineer

DATE: July 30, 2012

SUBJECT: Utilities Billings and Collections Audit No. 12-02

The following are management's responses to recommendations outlined in the Utility Billings and Collections Audit Report No. 12-02 provided by the City Auditor on July 2, 2012:

1. Public Works agrees with the recommendation. Public Works also acknowledges that significant effort on the part of City and SAP system support staff will be required to develop and implement a means by which to bill unoccupied properties which may have a significant cost.

Public Works and Utilities Department staffs have determined that it will require approximately one year to properly asses the feasibility and cost-effectiveness of billing vacant properties. Several issues including possible legislative changes, staffing requirements, business process changes, and ordinances amendments will need to be reviewed before a definitive answer can be provided. An answer regarding the billing of vacant properties will be provided by July 1, 2013.

pc: Paul Bronson, Assistant Director