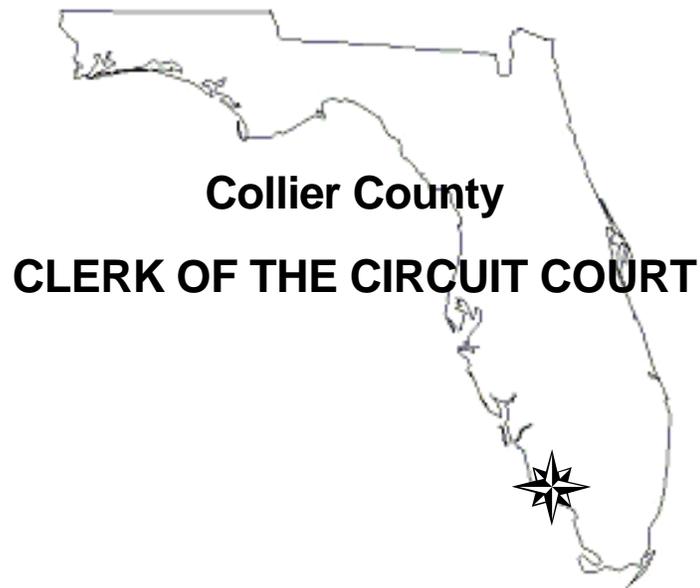


Collier County Clerk of the Circuit Court
Internal Audit Department

Audit Report 2003 – 8

Water & Sewer Revenue Audit



County of Collier
CLERK OF THE CIRCUIT COURT

Dwight E. Brock
Clerk of Courts

COLLIER COUNTY COURTHOUSE
3301 TAMIAMI TRAIL EAST
P.O. BOX 413044
NAPLES, FLORIDA 34101-3044

Clerk of Courts
Accountant
Auditor
Custodian of County Funds

February 23, 2004

Honorable Donna Fiala, Chairman
And Members of the Board of County Commissioners
3301 Tamiami Trail East
Naples, Florida 34112

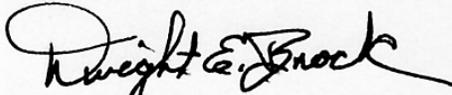
Re: Water and Sewer Revenue Audit
(Report No. 2003-8)

Chairman:

The enclosed report discusses the findings and recommendations of the above captioned audit performed by the Internal Audit Department. We thank the Utility Billing & Customer Service Department and the Finance Department for their cooperation in the performance of this audit.

If you have any questions about this report, please feel free to contact John Ferrell at 774-4645.

Sincerely,



Dwight E. Brock
Clerk of the Circuit Court

Enclosure

cc: James V. Mudd, County Manager

Memo

To: The Honorable Dwight E. Brock, Clerk
From: Patrick Blaney, CFE, CPA *P.B.*
Date: February 23, 2004
Re: Water and Sewer Revenue Audit

Please find attached our audit report of Water and Sewer Revenue. This report includes the responses of Utility Billing & Customer Service and the Finance Department to our findings & recommendations.

Internal Audit gratefully acknowledges the cooperation and assistance of Utility Billing & Customer Service, Finance, and other Board of County Commissioners employees.

If you have any questions about this report, kindly contact me at 774- 8075.

Collier County Clerk of the Circuit Court
Internal Audit Department

Phone (239) 774-8075
Fax (239) 775-5861
2671 Airport Road S., Suite 102
Naples, FL 34112

Audit Report 2003 – 8

Water & Sewer Revenue Audit

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Water & Sewer Revenue Audit

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Water & Sewer Revenue Audit

Background Information

Audit Purpose, Objective & Scope

The purpose of this audit was to maintain compliance with the four-year audit plan. The objective was to review the accuracy, and compliance with established procedures, of the Collier County Utility Billing & Customer Service Department's billing and recording processes. The scope was limited to those transactions taking place after the inception of their new utility billing system "inHance" on February 24, 2003.

Audit Methodology & Procedures

The Internal Audit Department interviewed appropriate Utility Billing & Customer Service and Finance Department staff responsible for the processing and recording of billings for water and sewer revenues.

Internal Audit also reviewed ordinances, statutes, policies and procedures relevant to the Utility Billing & Customer Service Department. A statistically based sample was used to test accuracy and compliance of Utility Billing & Customer Service's transactions. In addition, daily transfers of billing amounts from the Utility Billing & Customer Service system to the Finance Department's accounting system were tested to ensure they were correctly posted and included all Utility Billing & Customer Service transactions for that day.

Background

The original Collier County Water-Sewer District, also known as the County Water-Sewer District of Collier County, was created by Special Act of the Florida Legislature. The Utility Billing & Customer Service Department (UBCS) has 26 positions that prepare the water and sewer billings under review. Utility Billing is within the Public Utilities Division of Collier County Government. Utility Billing & Customer Service invoices approximately 47,000 customers monthly for operation, maintenance, and improvements to the Collier County Water & Sewer District. These fees are also used to pay off bond and loan debts used to construct major facilities. Operating revenues for Collier County Water and Sewer in fiscal year 2002 totaled \$50,143,593. The Board of County Commissioners appropriated \$2,067,500 to operate the UBCS Department.

The District incurs substantial expense in providing essential water and sewer services to Collier County residents. The District does not receive tax revenues for ongoing operations; therefore, ongoing operations and capital improvements are financed almost entirely from customer revenues (rates and fees). Rates and fees must be revised periodically, at levels sufficient to pay plant operational and maintenance expenses, and to pay principal and interest on all debt incurred for capital improvements. Collier County Ordinance 2001-73 established uniform billing, operating, and regulatory standards, procedures, and fee schedules. The Board has subsequently changed the fee schedules by resolution.

On February 17, 2003, Utility Billing & Customer Service began converting data to a new system, inHance, to prepare its customers' monthly billings, with its first billing run on February 25, 2003. The monthly water and sewer billing process originates with UBCS staff reading meters to determine the customers' water consumption. These readings are then downloaded to the new utility billing system. Utility Billing & Customer Service personnel prepare billings to forward to its customers. Daily transfers are made from inHance to the County's revenue and receivable accounts to record billings. To ensure proper amounts are recorded, Utility Billing & Customer Service personnel review daily and monthly summary reports prepared from the inHance system.

The Utility Billing & Customer Service Department is cooperating with the Water Department in the process of installing radio meters for all customers. They began installation in 1998, and have a goal of completion for all accounts by January 1, 2004. This makes meter reading much faster and allows this portion of the billing process to be completed in 2 days. The old system of manual meter reads would take 4 to 5 days to complete.

Water & Sewer Revenue Audit

Findings

Responsibilities enumerated in an Interlocal Agreement are not being administered.

There is an area of unincorporated Collier County that receives water service from the City of Naples and sewer service from the County. In a January 28, 2003, interlocal agreement, the City of Naples consented to billing these customers for County sewer charges, and remit the sewer revenue to the County by weekly wire transfer. The agreement took effect March 1, 2003. Prior to this date, the County had been billing these customers for City water and County sewer charges, and remitting the water revenue to the City. The County and City executed this interlocal agreement to avoid duplication of meter reading and billing services. The Utility Billing & Customer Service Department (UBCS) requested that Internal Audit review this agreement to ensure that these funds were being received from March 1st. As of July 8, 2003, the City was withholding \$1,457,969.49 of accrued sewer revenues due the County, consisting of \$1,133,406.09 cash, and \$324,563.40 accounts receivable. The City contended that the County owed it \$961,941.69 the County had collected on the City's behalf prior to the effective date of the agreement. This amount included water & surcharge revenue, impact & tapping fees, and reinstall & turn on fees. With the exception of a two-day period (January 13 & 14, 2003), the Finance Department has completed the reconciliation of accounts to correct this imbalance. The following findings stem from this situation:

- 1) When UBCS was still using its former billing system in January & February 2003, thirty-two billing transfers from Utility Billing to the Finance Department's new accounting system were recorded more than once, of which fourteen items were entered five times, and eighteen were recorded four times. As a result, Finance reports sent to the City overstated revenues due. The Finance Department has instituted a control to identify duplicate transfers in order to reverse them. These duplicate billing transfers overstated City water revenue by \$293,613.66, and partially led City staff to contend that the County owed the City money. Upon explanation of the overstatement, the City issued a check to the County for \$591,883.31.
- 2) The City also claimed that the County owed it previously collected impact and tapping fees. The Finance Department had failed to transfer impact and tapping fees to the City since November 2001, when a Fiscal Technician responsible for the majority of Utility Department accounting terminated. No

one took over the duties of collecting and sending impact and tapping fees to the City. Finance has since distributed Utility accounting responsibilities among several individuals. On August 1, 2003, Finance wrote a check to the City of Naples for \$326,873.00 covering the fees due for the period December 10, 2001 to July 28, 2003.

- 3) The interlocal agreement states that the County will pay the City of Naples \$9,000 per quarter for billing and collection services, payable in advance. The first payment was due on March 1, 2003. As of December 11, 2003, Utility Billing & Customer Service has paid the City \$18,000.00, and owes it another \$18,000.00. There is no process in place for UBCS to notify Finance when the next payment is due. As a result, this obligation continues to be overdue.
- 4) The City of Naples has been sending checks to the County on a weekly basis for revenues collected. However, the interlocal agreement states the City should be forwarding these monies to the County by wire transfer.
- 5) The interlocal agreement calls for the City to bill customers "for wastewater services in accordance with rates established by District ordinance." However, the City has declined to bill customers for the sewer service availability charge when a customer's water meter has been removed. Consequently, some customers were not being billed for the sewer service availability charge after their water meters were removed. After a lapse of five months, the County resumed its own billing process to collect these fees.

Recommendations

- 1) The Finance Department should continue to monitor accounts owed to the City of Naples in order to recover the balance of revenues due to the County. Utility Billing should put a control mechanism in place to prevent duplicate transfer/interfaces.
- 2) The Finance Department should monitor the transition of duties when positions are vacated to ensure all responsibilities are met.
- 3) Utility Billing & Customer Service and Finance should set up a procedure to pay the City timely for billing and collection services per the interlocal agreement.
- 4) Utility Billing & Customer Service should instruct the City of Naples to remit their weekly deposits to the County by wire transfer per the agreement.
- 5) Utility Billing & Customer Service and the City should clarify billing & collection responsibilities for the sewer service availability charge when a customer's water meter has been removed.

Utility Billing & Customer Service Department's Response

Recommendation 1 response: By way of background, the monies collected by the County for the City can be broken into three categories, which are:

- a. Certain monies collected between October 1, 2002 and December 31, 2002. Money collected in this time period was to be wire transferred to the City on a weekly basis. It was not. It is our understanding; payments were made by checks in calendar 2003.
- b. Monies collected between January 2, 2003 and March 1, 2003. This is the time frame when the duplicate recordings took place. UBCS was still using the old billing system and the CD Plus cash receipting system. UBCS processes and procedures remained the same during that time period but the SAP general ledger system went live on January 1, 2003.

The exact cause or location for the duplicate recordings cannot be pinpointed.

Duplication is not an issue with the new billing system (InHance) because the interfacing software was designed with controls that prohibit duplications. Basically, when an interface file is processed, the data packet is copied to another protected area accessible only to a system administrator. No duplications have been identified since the new billing system "went live" on February 24, 2003.

- c. Monies collected between December 10, 2001 and July 28, 2003. This \$326,873 was not related to UBCS. The Community Development and Environmental Services Division collected these monies in the permitting process and for simplicity purposes the liability to the City was recorded in the PUD General Fund (408), which implied PUD accountability.

Basically, the recommendation contains two comments, which are to monitor cash collections to recover the balances due from the City and to establish controls to avoid duplicative transfers.

The total amount received from the City, to date, is \$2,785,386.43. This amount covers the period from March 11, 2003 to December 26, 2003. The outstanding balances referred to in the audit report have been collected. UBCS has implemented controls to prevent duplications in the future.

Recommendation 2 response: This response should come from the Finance Department.

Recommendation 3 response: Procedure to pay the City timely. The payments are current. The first three payments of \$9,000 each were late. The fourth \$9,000 payment due on January 1, 2004 was made on December 19, 2003. A procedure to insure timely payments are made in the future has been implemented using SAP protocols (MIGO) and the calendar notification capabilities in the County's office software.

Recommendation 4 response: The City has initiated weekly wire transfers to the County starting in December 2003.

Recommendation 5 response: A meeting between City staff, UBCS staff and the Clerk's Internal Audit staff was held on December 19, 2003. Issues were resolved and the City has agreed to commence billing for the service availability charge on accounts where the meters have been removed for nonpayment. In addition, the City has agreed to bill financed impact fee charges to customers. There were five accounts where the meters have been removed and twelve accounts where impact fees are being financed.

Finance Department's Response

 In response to recommendation #1, the Finance Department is monitoring accounts owed to the City of Naples resulting from the imbalance of accounts receivable and accounts payable activity. The period that remains in question, January 13 & 14, 2003, is in the final stage of completion. Placing a priority on reconciling related balance sheet accounts has strengthened controls. Detecting differences on a timely basis will help prevent delays in revenue collections, and improve communications to related parties.

The Finance Department has also implemented procedures with the Clerk's MIS Department that assign a systems analyst the responsibility to track out-of-balance conditions before the interface process between UBCS and Finance takes place. Even though the inHance system should not allow duplications of data to occur, this procedure assures an independent verification and on-site confirmation from the Finance Department that interfaces are correct and in balance.

 In response to recommendation #2, Finance has distributed utility accounting responsibilities among several individuals in the department. This distribution not only is more equitable, but also promotes and emphasizes cross training of staff.

Transfer problems between UBCS's billing system and Finance's accounting system.

On February 24, 2003, Utility Billing & Customer Service (UBCS) went live with a new billing system, inHance, to prepare and record invoices to their customers. The Finance Department also implemented a new accounting system, SAP, on January 1, 2003. Both these systems and their mutual communication impose a learning curve upon the staff involved. The UBCS inHance system transfers billing data live each day to the Finance accounting system, which posts the billings to the general ledger. Tests performed by Internal Audit resulted in three findings:

- 1) During the review it was noted that on February 28, 2003, \$375,688.53 in utility billings was not transferred to the Finance Department's accounting system. In addition, utility billings for March 4, 2003, in the amount of \$647,508.42 was not transferred because account numbers were omitted by the inHance system during the interface procedure. During system software changes it is critical that both departments initiate proper independent controls and procedures. Lack of independent procedures to substantiate transfers during the initial stages of new system usage resulted in unrecorded accounts receivable and understated revenue. The Finance Department has subsequently recorded these amounts correctly.
- 2) The receivables summary transfer reports from the inHance system show the summary debit and credit items in the opposite columns for accounting purposes. The system designed by IMSofTech Inc. has the revenues (income) in the left column and the receivables (assets) in the right column. This can be confusing when first encountered, and does not follow sound accounting practice.
- 3) During the review it was also noted that 47% of the live utility billing transfers from UBCS to Finance had small differences when compared to the inHance billing cycle summary reports. Utility Billing & Customer Service has been in contact with IMSoftech Inc. to provide an enhancement to their system to correct these differences. Interviews with Finance staff indicate that these differences for the most part have been corrected, and their frequency is now very low.

Recommendations

- 1) Utility Billing & Customer Service and the Finance Department should prepare a summary log detailing all daily transfers between UBCS and the Finance Department's accounting system, and verify acceptance of all transfers. Utility Billing & Customer Service staff should review all transfers and related reports on the Finance Department's system.
- 2) Utility Billing & Customer Service should direct IMSoftech Inc. to correct this problem of reporting debits and credits in the opposite columns.
- 3) Utility Billing & Customer Service should pursue its requested system enhancement with IMSoftech Inc. to provide detailed reports of differences between utility billing transfers to Finance and billing cycle summary reports.

Utility Billing & Customer Service Department's Response

Recommendation 1 response: The discrepancies noted on February 28, 2003 and on March 4, 2003 happened just after the new billing system "went live" on February 24, 2003. We agree with and have implemented the recommendation to prepare summary logs on the daily interface totals. After each daily group of interfaces from UBCS to Finance has been completed, the SAP system prepares a system-generated e-mail, which is sent to both Finance and UBCS summarizing the total amounts (in dollars) of each interface activity batch. UBCS staff can compare the totals to the billing system reports. Finance can compare the totals to the general ledger activity. If either Department notes a discrepancy, then UBCS can generate a detailed log of the activity in each batch for analysis and corrective action.

Recommendation 2 response: A modification to the billing system has been completed, tested and placed into production correcting the debit and credit postings.

Recommendation 3 response: The response to Recommendation 1 addresses this Recommendation 3. The detail reports will be used to identify and correct differences.

Finance Department's Response



In response to recommendation #1, the Finance Department agrees with the recommendation and has implemented with UBCS an interface log that details daily transfers. Upon receiving notification of billing interfaces, the Finance Department reconciles the transfers to the SAP accounting system and responds to UBCS by email detailing the results of the reconciliation of accounts.

Radio meter installation

Radio meter reading allows meter readers to complete a billing cycle within 2 days, compared to 4 or 5 days using manual reads. Radio meters are more efficient, faster and more accurate than manual meter readings. Radio meter reading has saved tax dollars by allowing UBCS to eliminate two meter reader positions in the last fiscal year (those employees transferred to Water Department). Radio meters also reduce the need for meter readers to exit their vehicles in dangerously busy locations, reducing potential liability claims.

The Water Department and UBCS began a joint program to install radio meters in 1998, and are on target to meet their goal of installing radio meters for all customers by January 1, 2004. They are currently installing approximately 1,500 to 2,500 radio meters per month.

Recommendation

Utility Billing & Customer Service staff should be commended for their continuing efforts to complete radio meter installation for all customers.

Utility Billing & Customer Service Department's Response

Recommendation 1 response: There are 45,434 meters installed in the Collier County Water-Sewer District plus approximately 6,000 wastewater accounts billed by the City of Naples. At December 31, 2003, 73% of the manual meters owned by the District have been converted to radio read technology. The City is in the process of converting their meters to radio read technology.

Water & Sewer Revenue Audit

Conclusion

Internal Audit's review of water and sewer revenue has brought various issues to the attention of management that resulted in several adjustments being made to revenue and receivable accounts. Internal Audit recognizes that there is a period of transition when setting up new systems and related internal controls to ensure the effectiveness and efficiency of operations. Utility Billing & Customer Service is presently preparing policy and procedures manuals for operation of their new inHance system and related transfers to the Finance Department's accounting system. Internal Audit would like to thank the Collier County Utility Billing & Customer Service Department, as well as the Collier County Clerk of the Circuit Court's Finance Department, management and personnel, for their cooperation and assistance during our review.

Responses

Utility Billing and Customer Service Department Response:



COLLIER COUNTY UTILITY BILLING & CUSTOMER SERVICE

2685 S Horseshoe Dr • Naples, Florida 34104 • 239-403-2350 • FAX 239-403-2366
Utility Customer Service 239-403-2380 • FAX 239-403-2383 • HOTLINE 239 594-5558 • EMAIL utilitybill@colliergov.net
Trash Customer Service 239-403-2367 • FAX 239-403-2386 • HOTLINE 239 594-3024 • EMAIL trashcollection@colliergov.net
Special Assessments 239 403-2358 • FAX 239-403-2312
Landfill Billing 239 213-5842 • FAX 239-403-2366

January 5, 2004

Mr. Pat Blaney, CFE, CPA
Director, Internal Audit
Clerk of the Circuit Court
Collier County, Florida

Re: Audit Report 2003-8

Dear Mr. Blaney:

Following please find the responses to the Water and Sewer Revenue Audit Report 2003-8. The Utility Billing and Customer Service Department (UBCS) of the Public Utilities Division (PUD) of Collier County prepared the responses.

First, let me commend you and your staff on the professional manner in which the audit was conducted. It was a pleasure working with you and your internal audit team.

The Audit Report is divided into three sections:

1. Background Information;
2. Findings; and
3. Conclusion

Responses are geared to Section 2, Findings, which covers three topics. Each topic has several recommendations. A response has been prepared and presented for each recommendation.

Topic: Responsibilities enumerated in the Interlocal Agreement between the County and the City of Naples are not being administered.

Recommendation 1 response: By way of background, the monies collected by the County for the City can be broken into three categories, which are:

- a. Certain monies collected between October 1, 2002 and December 31, 2002. Money collected in this time period was to be wire transferred to the City on a weekly basis. It was not. It is our understanding; payments were made by checks in calendar 2003.
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Topic: Transfer problems between the Utility Billing and Customer Services billing system and the Finance Department's accounting system.

Recommendation 1 response: The discrepancies noted on February 28, 2003 and on March 4, 2003 happened just after the new billing system "went live" on February 24, 2003. We agree with and have implemented the recommendation to prepare summary logs on the daily interface totals. After each daily group of interfaces from UBCS to Finance has been completed, the SAP system prepares a system-generated e-mail, which is sent to both Finance and UBCS summarizing the total amounts (in dollars) of each interface activity batch. UBCS staff can compare the totals to the billing system reports. Finance can compare the totals to the general ledger activity.

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Recommendation 3 response: The response to Recommendation 1 addresses this Recommendation 3. The detail reports will be used to identify and correct differences.

Topic: Radio Meter Installation

Recommendation 1 response: There are 45,434 meters installed in the Collier County Water-Sewer District plus approximately 6,000 wastewater accounts billed by the City of Naples. At December 31, 2003, 73% of the manual meters owned by the District have been converted to radio read technology. The City is in the process of converting their meters to radio read technology.

In conclusion, this audit review and process was both timely and very helpful. It was instrumental in clearing the contractual issues with the City of Naples and it has helped strengthen the accuracy, the accountability and the technical communications between the UBCS Department and the Clerk's Finance Department.

Finance Department Response:

Finding: Responsibilities enumerated in an Interlocal Agreement are not being administered.

In response to recommendation #1, the Finance Department is monitoring accounts owed to the City of Naples resulting from the imbalance of accounts receivable and accounts payable activity. The period that remains in question, January 13 & 14, 2003, is in the final stage of completion. Placing a priority on reconciling related balance sheet accounts has strengthened controls. Detecting differences on a timely basis will help prevent delays in revenue collections, and improve communications to related parties.

The Finance Department has also implemented procedures with the Clerk's MIS Department that assign a systems analyst the responsibility to track out-of-balance conditions before the interface process between UBCS and Finance takes place. Even though the inHance system should not allow duplications of data to occur, this procedure assures an independent verification and on-site confirmation from the Finance Department that interfaces are correct and in balance.

In response to recommendation #2, Finance has distributed utility accounting responsibilities among several individuals in the department. This distribution not only is more equitable, but also promotes and emphasizes cross training of staff.

Finding: Transfer problems between UBCS's billing system and Finance's accounting system.

In response to recommendation #1, the Finance Department agrees with the recommendation and has implemented with UBCS an interface log that details daily transfers. Upon receiving notification of billing interfaces, the Finance Department reconciles the transfers to the SAP accounting system and responds to UBCS by email detailing the results of the reconciliation of accounts