



MEMORANDUM

City of Fort Smith
Internal Audit

TO: Lance McAvoy, Utility Department Head

FROM: Tracey Shockley

DATE: July 21, 2022

SUBJECT: Backflow Connect and Schedule of Fees Remediation

An audit was conducted in 2018 that identified several matters for which recommendations were made.

Permits were not being issued for backflow prevention devices/assemblies and permit and inspection fees were not collected for backflow prevention devices/assemblies. It was also identified in the audit that there were 1,565 active devices/assemblies where the Utilities Department was losing annually approximately \$217,535 in revenue.

From the audit in 2018 IA recommended the following:

RECOMMENDATIONS: The Utility Department management should review the City Ordinance for the Cross-Connection Program, since the last revision in January 2009 and the Department should adhere to the requirements to properly issue permits and assess fees for permits and inspections to promote a healthy and safe water system. In addition, the Cross-Connection team should continue to complete the surveys to identify backflow prevention devices to ensure a complete and accurate list of devices is maintained in the City's records.

Management provided the following to the audit in 2018:

UTILITY DEPARTMENT'S MANAGEMENT RESPONSE: Agree. The Utility Department leadership is drafting a new, consolidated fee structure/schedule, which includes all services provided by the Department. This fee structure document will include, among others, fees for cross-connection, backflow devices and FOG inspections and permits.

IA inquired with the Utilities Cross Connection Coordinator regarding the current status of this matter in 2022 and was informed that the Utilities Department is not collecting commercial, industrial and contract user customer permit fees, including assembly fees and inspection fees. This department program is fully staffed and therefore as of 2022 the Utilities Department has not collected from 2018-2022 approximately \$1,087,675 in revenue. Moreover, the Utilities Department has not reevaluated the

charges for services as previously recommended. Cost, supplies, inflation, etc..... have affected the Utilities Department, especially the last three years, and no changes have been made to the Schedule of Fees for City Services during that period or, in fact, for many years. Additionally, IA noted that there have been changes to services, some services no longer provided and new services that should be added to the schedule of fees.

IA was informed that Cross Connection Control Program (CCCP) utilizes a software call Tokay which has the fields to track permitting and assessment fees, however it does not have the ability to transfer the information to Customer Service for billing, a project that was supposed to be completed by ITS.

Lastly, Ordinance 2363 was approved in 1962 that established fees for standby fire protection charges, which CCCP is responsible for calculating and forwarding to Customer Service for billing. Standby fire protection service line is construed as an unmetered ready-to-serve private fire protection service line. Additionally, unmetered private fire hydrants are also charged a rate according to the size of the valve opening. For instance, a customer is billed a \$1 for a fire service line 2" and a customer is billed \$3.20 for a fire service line 4" monthly. A customer is billed \$1 for a 2" wet risers and for a private fire hydrant customer is billed \$2.50 monthly.

IA recommends the following:

- Review the schedule of fees, including the standby fire protection service line and private hydrant monthly fees and update the charges to reflect the current cost for those services. The Utility Department should be ensuring that the cost of the services are adequately charged and paid by the customer and not a cost absorbed by the City for those expenses.
- Reevaluate the schedule of fees for City Services. Ensure that new services provided not listed are added to the schedule and services no longer provided be removed. The fees should reflect current prices to cover the expenses for services provided by the Utility Department. This should be completed within three months.
- CCCP should send a spreadsheet to the Accounts Receivable Specialist to invoice the customers for permitting and assessment fees.

Managements Responses

The memorandum is in response to your memorandum dated July 21, 2022, and received via email on July 29, 2022, regarding recommendations to the backflow connection program and schedule of fees remediation. Management thanks Internal Audit for their time and diligence in reviewing both the backflow connection program and schedule of fees and suggesting ways to make the program better and Department sustainable.

Internal Audit stated that recommendations were made in 2018 prior to the new management of the Department, it was identified that the Utility Department was not assessing fees for permits and inspections. At that time the former management stated the Department was "...drafting a new, consolidated fee structure/schedule, which includes all services provided by the Department. This fee structure document will include, among others, fees for cross-connection, backflow devices and FOG inspections and permits."

Internal Audit has rightfully pointed out this has not occurred. The Department, at the direction of the City Administrator, is currently reviewing all of the fees that are being assessed by as well as those which are not being assessed. The fees will then be presented to the Board of Directors for them to determine the fees to be charged and the structure of those fees. This should be completed near the end of 2022 or shortly after the beginning of 2023.

It might be important to note that Tokay is being phased out and the Cross Connection Control Program (CCCP) will begin utilizing Lucy for their tracking.

Three recommendations were made to the Utility Management about the backflow connection program and schedule of fees.

1. Review the schedule of fees, including the standby fire protection service line and private hydrant monthly fees and update the charges to reflect the current cost for those services. The Utility Department should be ensuring that the cost of the services are adequately charged and paid by the customer and not a cost absorbed by the City for those expenses.

The Department, at the direction of the City Administrator, is currently reviewing all of the fees that are being assessed by as well as those which are not being assessed. The fees will then be presented to the Board of Directors for them to determine the fees to be charged and the structure of those fees. This should be completed near the end of 2022 or shortly after the beginning of 2023.

2. Reevaluate the schedule of fees for City Services. Ensure that new services provided not listed are added to the schedule and services no longer provided be removed. The fees should reflect current prices to cover the expenses for services provided by the Utility Department. This should be completed within three months.

As stated in the response for Recommendation 1, this is being done. The time frame provided of three months most likely will not be met as we are in budget season as well as other priorities for the Department and emergencies that may occur. Additionally, this would need to be scheduled as a study session for the Board of Directors to provide their input and direction. As stated, this should be completed near the end of 2022 or shortly after the beginning of 2023.

3. CCCP should send a spreadsheet to the Accounts Receivable Specialist to invoice the customers for permitting and assessment fees.

Staff will find the best way to move forward and partner with the Finance Department. It might be prudent to look at the fee schedule first before sending bills out to assess permit and assessment fees. This would allow the Board of Directors time to explain the fees in a public forum and why they are be assessed. The Department will discuss this with the City Administrator and determine the best path forward.

Please contact me should the Board of Directors or Internal Audit have any questions.

Internal Audit's Assessment of Management's Responses

1. IA agrees with Management's responses.
2. IA recognizes management's responses.
3. IA recognizes management's responses. IA would like to note the importance of Utilities completing this as soon as possible so that the City does not continue to absorb these costs.

Overview of Backflow Connection lost revenue

- Based upon the information from 2018 lost revenue amount: 2018 through 2022 approximately \$1,087,675.
- IA does not have the information to perform an analysis on lost revenue from the schedule of fees and standby fire protection service line and private hydrant monthly fees.

cc:

Audit Advisory Committee
City Board of Directors