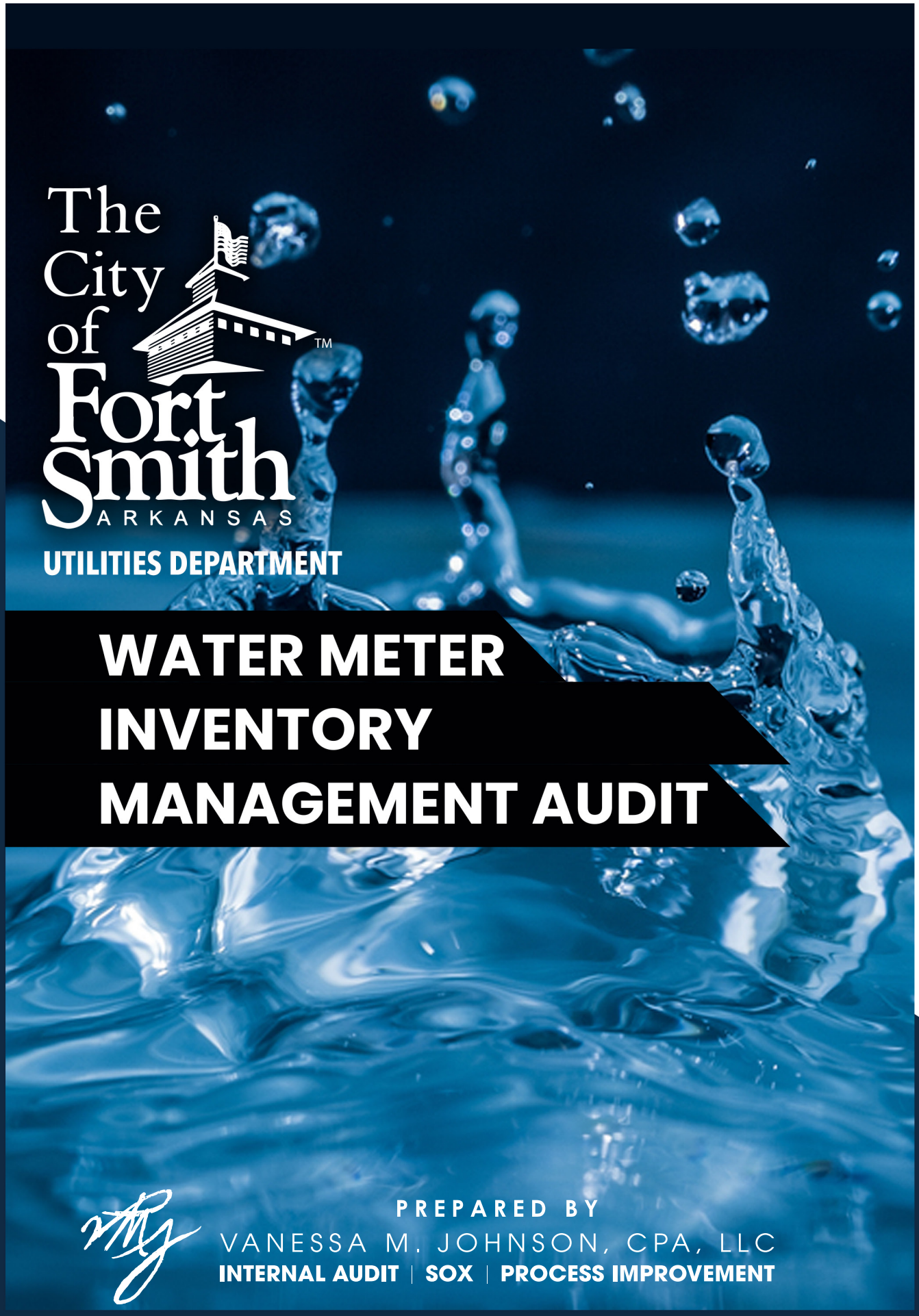

The City of Fort Smith
ARKANSAS
UTILITIES DEPARTMENT
WATER METER INVENTORY MANAGEMENT AUDIT
PREPARED BY
VANESSA M. JOHNSON, CPA, LLC
INTERNAL AUDIT | SOX | PROCESS IMPROVEMENT

VANESSA M. JOHNSON, CPA, LLC

SEPTEMBER 16, 2020

The Honorable Mayor, Board of Directors, and Audit Committee Members
City of Fort Smith
623 Garrison Avenue
Fort Smith, AR 72901

The Internal Audit Office contracted with Vanessa M. Johnson, CPA, LLC (VMJ CPA) to provide professional independent internal audit services. We have assisted the Internal Audit Director in performing Phase 2 of the Water Meter Audit and have issued a report dated September 16, 2020.

The scope of our work constituted the review of activities and transactions related to the Water Meter Inventory Management process and did not constitute an evaluation of the overall internal control structure of the Utilities Department.

The attached audit report identifies seven (7) opportunities for the Utilities Department to improve the effectiveness and efficiency of operations. We would like to express our appreciation to management and staff of the Utilities Department for their time and effort, responsiveness, and cooperation during the course of the audit.

Thanks,

Vanessa M. Johnson, MBA, CPA, CIA
Managing Director

TABLE OF CONTENTS

EXECUTIVE SUMMARY

INTRODUCTION

Phase 2 of the Water Meter Audit consisted of performing a review of the water meter inventory management process. The City of Fort Smith's Internal Audit Department engaged VMJ CPA to assist in conducting a Water Meter Audit within the City's Utilities Department.

This audit report issued on September 16, 2020 outlines the findings and recommendations for Phase 2 of the Water Meter Audit.

BACKGROUND

Approximately 66,161 city-owned water meters are maintained by the City's Utilities Department. These meters consist of water meters that are actively in use by customers, inactive meters installed at service points, and meters in inventory at the warehouse. The water meter inventory management process is maintained within the Munis ERP system, which was implemented by the Utilities Department in December 2018. The prior system that managed meter inventory was ArcBest. All locations receiving water services have meters assigned to the customer's account. Note: Some fire services do not have meters. IA identified 6 key processes related to Water Meter Inventory Management. These include:

- Receiving new meters into inventory
- Water meter installation/change-out
- Water meter retirement from service/meter removal
- Scrapping of Water Meters
- Fire Hydrant Meter Rentals
- Reconciling water meter inventory records to the general ledger

In January 2018, the City of Fort Smith commenced a multi-year project to replace old water meters with new Electronic Read Transmitters (ERT) and positive displacement meters to improve the efficiency and effectiveness of the meter reading process. The latest metrics as of September 31, 2019 shows approximately 70% of meters installed at service locations have been replaced with newer positive displacement meters.

AUDIT SCOPE AND OBJECTIVES

The engagement scope considered activities and transactions related to water meter inventory management. Our audit objectives, as refined during research and the risk assessment process occurring throughout the course of our work, is as follows:

1. To determine if a complete and accurate inventory is maintained of all locations receiving water service.
2. To assess the controls over the Utilities Department's water meter inventory management process to ensure completeness and accuracy of inventory records, accountability for inventory transactions, and safeguarding of water.

PROCEDURES PERFORMED

To obtain sufficient evidence to achieve audit objectives and support our conclusions, we performed the following:

PLANNING

- Conducted kick-off meeting with Internal Audit and Utilities management;
- Developed and submitted data requests to obtain standard operating procedures (SOPs), processes and control documentation, performance metrics, water meter inventory records, and other relevant data that was reviewed to perform assessments;
- Conducted interviews and process walkthroughs with key individuals performing key activities within the water meter inventory management process;
- Identified key risks and controls and evaluated design of controls;
- Identified potential areas for process improvements and control gaps;
- Refined work plan based on risks, standards, and processes, and developed test plans; and
- Performed sampling of meters and issued data request for detailed testing.

FIELDWORK

- Conducted physical counts of water meters in use at service locations and in inventory at storage locations;
- Verified meter purchase price and determined if water meter assets were appropriately capitalized;
- Verified scrapped meters were properly disposed and removed from the general ledger;
- Verified if rented water meters for fire hydrant locations were at the contracted location based on the rental contract;
- Reviewed user access reports to determine if system access to meter inventory records were restricted to authorized users;
- Review employee access to physical storage locations of water meter asset inventory to determine if access was restricted to authorized employees; and
- Documented findings and confirmed with process owners

REPORTING

- Prepared a draft report to include testing results and recommendations, and
- Discussed draft findings with process owners and management, obtained management responses, and assessed management responses.

AUDIT METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. 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.

The scope of our work did not constitute an evaluation of the overall internal control structure of the Utility Department. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

CONCLUSIONS AND SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each conclusion is aligned with the related Audit Objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses see the "Detailed Findings, Recommendations, Management Responses, and Assessment of Responses" section of this report.

AUDIT OBJECTIVE 1

To determine if a complete and accurate inventory is maintained of all locations receiving water service.

CONCLUSION

Based on the results of the audit procedures performed, the Utilities Department does not maintain a complete and accurate inventory of all locations receiving water services.

- From the sample of sixty-two (62) residential meters and service locations selected for testing, one (1) meter and service location were not maintained in the Munis inventory records. (See Finding #1)
- Water service locations are not properly captured in City records. At least twenty-two (22) of the eighty-eight (88) service locations receiving water service on the University of Arkansas – Fort Smith's campus have incorrect service addresses shown in City records. **(See Finding #2)**

AUDIT OBJECTIVE 2

To assess the controls over the Utilities Department water meter inventory management to ensure completeness and accuracy of inventory records, accountability for inventory transactions, and safeguarding of water meter assets.

CONCLUSION

Based on the results of the audit procedures performed, the Utilities Department does not appear to have effective control policies or procedures in place that provide management with reasonable assurance of meeting this objective.

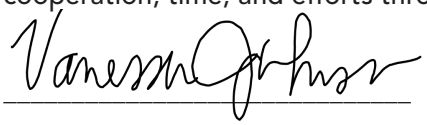
- Annual physical inventory counts of water meters assets and reconciliations of water meter inventory records to the general ledger are not performed to ensure completeness and accuracy of water meter asset records as required by the City's Fixed Asset policy. (See Finding #3)
- Disposal of scrapped water meters is not properly recorded in meter inventory records and the general ledger. (See Finding #4)
- Access to meter inventory records in the Munis ERP system is not restricted to authorized users. (See Finding #5)
- Physical security of water meter assets is not properly restricted and maintained. (See Finding #6)
- Meters rented for fire hydrant use were not located at contracted location. (See Finding #7)

OTHER OBSERVATIONS

- During the physical count of sixty-two (62) residential service locations, two (2) water service locations with active water taps did not have water meters installed. Water consumption at the service locations cannot be captured without water meters installed.
- During the warehouse inventory count, six (6) water meters sampled had installation dates that should have been the purchase dates in the inventory record.
- Meter inventory records lack necessary information, such as purchase price, to perform proper reconciliations. Fifty-two (52) of the 75 meters tested in warehouse inventory did not have the meter purchase price in the meter inventory record.
- The useful life of water meter assets is not consistently determined and applied. The City's Fixed Asset policy does not provide guidance on the useful life of water meter assets. Internal audit reviewed the water meter asset records maintained in the general ledger and noted useful lives ranging from 5 to 10 years for the same types of meters. Based on research of comparable utilities and best industry practice, the useful life of water meters placed in service range from 15 to 20 years.
- Depreciation is not properly taken on water meters based on when the asset was placed into service. Management should work with Finance to develop a process to ensure timely depreciation.
- Multiple credentials for employee access to meter inventory storage locations are not properly deactivated when no longer in use.

ACKNOWLEDGEMENT AND SIGNATURES

The Audit Team would like to thank the Utility Department, and the University of Arkansas Fort Smith for their cooperation, time, and efforts throughout the course of the engagement.



Vanessa M. Johnson, MBA, CPA, CIA

Managing Director, VMJ CPA

Tracey Shockley, CCA, CFE

City of Fort Smith Internal Audit Director

DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES

FINDING #1 - #2 - WATER SERVICE LOCATIONS ARE NOT PROPERLY CAPTURED IN CITY RECORDS.

BACKGROUND:
Based on the risk assessment performed and sampling approach, Internal Audit selected residential and school locations to perform physical counts of water meters. Tancred Street was one residential area from cycle 3 select for testing and the University of Arkansas at Fort Smith (UAFS) was one school location selection for testing from cycle 2. Internal Audit met with the UAFS Facilities Maintenance personnel to coordinate the physical count of all meters on the UAFS campus. Internal Audit obtained a campus map, meter location documentation, and other related documentation to perform the count over a 2-day period.

FINDING 1:
From the sample of residential meters and service locations selected for testing, one (1) meter and service location was identified as not maintained in the Munis inventory records.

FINDING 2:
Water service locations are not properly captured in City records. Internal Audit noted twenty-two (22) of the eighty-eight (88) service locations receiving water service on the University of Arkansas – Fort Smith's campus have incorrect service addresses shown in City records.

RECOMMENDATIONS:
It is recommended that management review service addresses where meters are installed to ensure water flows are captured at the correct locations and all service locations and meters are maintained in inventory records.

UTILITY DEPARTMENT'S MANAGEMENT RESPONSE:
Finding #1: This site was a long term, inactive account that was not transferred properly from the old "ArkBest" system to the new Tyler/Munis ERP system.

Finding #2: Although the addresses currently used do not match the current University of Arkansas – Fort Smith's campus's identified service locations, the campus is billed appropriately for the water delivered to the campus.

The Utility Department is currently obtaining the location using global position satellite (GPS) location of each meter. Phase II will be a deep review to ensure the proper customers are being billed and duplicate customer account numbers being removed.

RESPONSIBLE PARTY:
Lance McAvoy, Interim Utility Director

ESTIMATED DATE OF COMPLETION:
The GPS location of all meters is currently underway. The time frame for project completion is late 2021 dependent on weather, work load, and other factors. A standard operating procedure will be written that includes all new meter installations' GPS data being recorded at the time of the installation and tied to the proper service address. This will allow for meter locations to be tracked in the City's GIS system.

The Tyler/Munis Phase II portion is currently in the discovery scope phase as part of the software update. It is the Department's hope that the Phase II will be completed at the same time as Phase I, or shortly thereafter.

ASSESSMENT OF RESPONSE:
Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

FINDING #3 – ANNUAL PHYSICAL INVENTORY COUNTS AND WATER METER INVENTORY RECONCILIATIONS TO THE GENERAL LEDGER ARE NOT PERFORMED.

BACKGROUND:
According to the City's Fixed Asset policy, all capital assets costing $20,000.00 or more must be inventoried and listed in the Capital Asset System. A complete physical inventory will be done by the departments once every year to ensure accuracy of the Capital Asset System. After the physical inventory count is completed, the department is to conduct the reconciliation process. Only when all differences have been identified and explained, is the inventory considered reconciled. After the inventory is reconciled, the Department Head is to certify the reconciliation with a statement and signature that it is correct. The certification, together with the reconciliation and the inventory listing, serves as the support for the inventory balance and for accounting adjustments, if any, and must be retained by the Finance Office. Departments are to adopt internal policies and procedures regarding the timely removal of capital assets from inventory, including procedures for the proper approval of disposal. Capital assets are to be removed from active inventory only after being declared surplus by the City Board of Directors and sold at auction (including second party vendors). Departments are to maintain copies of capital asset disposition and the Finance Office will maintain all original records.

FINDING 3:
Annual physical inventory counts of water meters assets and reconciliations of water meter inventory records to the general ledger are not performed to ensure completeness and accuracy of water meter asset records as required by the City's Fixed Asset policy. Water meter assets totalled approximtaly $3.8 million as of December 31, 2018[1]. Of the seventy-five (75) water meters sampled in inventory at the Kelley Hwy storage locations, there were six (6) water meters showing in inventory at the warehouse that were actually in use at a customer's service location. Seven (7) water meters showing in inventory at the warehouse had actually been sent back to the vendor. One (1) meter could not be located or verified if they had been scrapped.

Of the two-hundred and thirteen (213) meters sampled for the audit, one hundred and thirty-eight (138) meters, which is approximately 65%, were not found as capitalized assets in the general ledger. Meters purchased prior to 2017 were mostly expensed and not properly capitalized in the GL by the City's Finance Department because water meter assets did not meet the capitalization threshold on an indiviual basis.

RECOMMENDATIONS:
It is recommended that management perform periodic physical counts and reconciliations of water meter assets to ensure completeness and accuracy of water meter asset records. It is also recommended that because of the useful life of water meters and the critical nature of recognizing revenue for the City's Utilities Department, these meters should be properly capitalized as assets with a proper useful life.

UTILITY DEPARTMENT'S MANAGEMENT RESPONSE:
The current Utility Department Management was not aware of the City's Fixed Asset policy until this audit. Based on the knowledge of the current Utility Management, meters would not have been designated as a fixed asset as each meter is less than the $20,000 capital threshold. Based on the review of the policy the Utility Management does not dispute the finding and the overall meter inventory is greater than the $20,000 threshold. The meter inventory "in use by customer" was maintained by the Finance department until late 2018 or early 2019. Loss of key personnel and the lack of documented processes exasperated the issue.

The Utility Department is now aware of the Fixed Asset Policy provided for this audit and will work with the Finance Department to ensure proper compliance.

Staff is currently working on an inventory standard operating procedure (SOP) to aid in the accurate and complete accounting of the water meters. This will include not only the proper method but frequency of meter inventory.

RESPONSIBLE PARTY:
McAvoy, Utilities Director

ESTIMATED DATE OF COMPLETION:
The SOP for all inventories will be completed by the end of first quarter 2021.

ASSESSMENT OF RESPONSE:
Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

1. The 2019 Fixed Asset Reconciliation had not been completed at the time of the audit. As such, the 2018 meter inventory values were used.

FINDING #4 – DISPOSAL OF SCRAPPED METERS IS NOT PROPERLY RECORDED.

BACKGROUND:
When water meters have been identified as nonrepairable and need to be scrapped, the meter technician will separately store the meters in locked bins adjacent to meter inventory storage units at the warehouse to await pick-up by the disposal facility that the City has contracted with to properly dispose of scrap metal. Only authorized personnel have access to these storage locations. At the time of pick-up, the meter technician will count the meters and provide the contractor with the count so that payment can be made at the prices approved within the bid documentation.

The City's Fixed Asset policy provides guidance on the disposal of surplus property. Departments are to adopt internal policies and procedures regarding the timely removal of capital assets from inventory, including procedures for the proper approval of disposal. Capital assets are to be removed from active inventory only after being declared surplus by the City Board and sold at auction. Surplus property, can be sold at public auction, transferred from one department to another department, recycled or disposed of as junk to a land fill or other appropriate waste removal facility. Property which is not sold at a public auction will be disposed of. Proceeds from the sale of capital assets through a second party vendor will be allocated back to the appropriate department budget into object code 464500 in the general ledger. The proceeds received must be documented on the disposal form.

FINDING 4:
Disposal of scrapped meters are sold to unauthorized facilities and are not properly recorded in meter inventory records and the general ledger. Based on the procedures performed, no Board approval was obtained to sell meters to the selected disposal facility. No disposal forms are used to document scrapped meter serial numbers sold during a transaction with the disposal facility. There is currently no way to determine which meters were sold in each transaction and no process to notify the City's Finance Department when water meters are scrapped and no longer assets to the City.

RECOMMENDATIONS:
It is recommended that management obtain the necessary approvals to sell surplus property and develop and implement the proper controls to ensure meter disposition is properly recorded.

UTILITY DEPARTMENT'S MANAGEMENT RESPONSE:
The Utility Department agrees with the finding.

As stated in response to Finding #3, the process that was followed did not comply with the City's Fixed Asset policy as meters were not viewed as fixed assets.

The Department will write an internal policies and SOP for the proper removal and disposal of meters from inventory.

FINDING #4 (CONT.)

The meter disposal will be bid out and then the Department will seek Board of Directors' approval for the disposal. This will be a joint project with Finance, Purchasing, and Utility.

The second item is to determine if the Tyler/Munis system can properly track meters that have been disposed of through either scrap or sale. Currently meters are placed in the "junk" category in the Tyler/Munis system when a meter is taken out of service and is deemed ready for disposal. Staff will check with ITS to determine if the designation could be changed to "disposed of" or something similar to better track the complete removal of the meter from the system. The Utility Department will provide the Finance Department a report after the meters are properly disposed of for proper asset management tracking.

RESPONSIBLE PARTY:
McAvoy, Utilities Director

ESTIMATED DATE OF COMPLETION:
The policy and SOP will be completed by the end of December 2020.
Bidding the meter disposal and seeking Board of Directors' approval will be completed as soon as possible. As there are other departments involved, Utility will work to have this completed no later than February 2021.

Tyler/Munis tracking will be investigated with the ITS staff. If it is possible, the action will be requested to be completed by ITS by the end of September 2020.

ASSESSMENT OF RESPONSE:
Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

FINDING #5 – ACCESS TO METER INVENTORY RECORDS IN THE MUNIS ERP SYSTEM IS NOT RESTRICTED TO AUTHORIZED USERS.

BACKGROUND:
Management currently does not have a process in place to periodically review and approve user access for appropriateness. Current user access was provisioned by the City's IT Department when the Munis ERP system was implemented by the City's Utilities Department in December 2018. No subsequent review of user access has been performed by management.

To perform the review, Internal Audit obtained a list of user roles, permissions, and descriptions of Munis users and identified the Add/Update/Delete Meters and Flat Inventory role permission that grants users assigned to the role permission to add, update, and delete meter and flat inventory item records. Users that had been granted this role permission were reviewed for appropriateness based on the roles and responsibilities of their job.

FINDING 5:
Access to meter inventory records in the Munis ERP system is not restricted to authorized users. Internal Audit identified 46 users with inappropriate access.

RECOMMENDATIONS:
It is recommended management implement the proper controls to review and approve user system access periodically to ensure appropriateness and authorized use.

UTILITY DEPARTMENT'S MANAGEMENT RESPONSE:
The Utility Department agrees with the finding.

A meeting was held with Sarah Byers, ITS Project Manager, to review all roles in the Tyler/Munis UB and meter inventory system to ensure all roles were accurate and to remove those who did not need access. It was also found that temporary access could be granted if needed due to key staff being out due to illness, vacation, or leave. This access is only granted upon request of Utility Management.

On a minimum of an annual basis, the Utility Director or his/her designee will review the employee access permission list in Tyler/Munis UB to ensure that the employees have the correct access and no one has made changes to the access without proper authorization. This list will be provided to the Internal Audit Department annually for their records.

RESPONSIBLE PARTY:
McAvoy, Utilities Director

ESTIMATED DATE OF COMPLETION:
Completed on August 25, 2020.

ASSESSMENT OF RESPONSE:
Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

FINDING #6 – PHYSICAL SECURITY TO WATER METER ASSETS IS NOT PROPERLY RESTRICTED AND MAINTAINED.

BACKGROUND:
Physical access to various City locations (i.e. buildings) is managed by the City's Information Technology Department. Employees are issued badges that are scanned at the location the employee has been granted access. Access is granted based on certain groups the employees have been assigned a member of by the IT Department. At the group level, based on the configurations of the locations that group has access to will determine the employee's access. Internal Audit identified 3 locations where water meter asset inventory is stored: 1) Kelley Hwy Warehouse Basement 2) Storage Container 1 and 3) Storage Container 2. The access to these locations were reviewed to determine if employee access was restricted to authorized personnel.

For water meters that have been installed at service locations, a metal box and lid is used store and secure water meters to protect from theft and damage. A special key maintained by the City's Utilities Department is used to open and close the lids.

FINDING 6:
Physical security of water meter assets is not properly restricted and maintained. Seventy-one (71) employees were identified with access to water meter inventory storage locations that should not have been granted access based on their roles and responsibilities.

During the physical count of water meters at residential service address, there were five (5) water meter lids that were broken leaving the water meter exposed and vulnerable to theft and damage.

Meters rented for fire hydrant use are not locked and secured by City personnel to prevent unauthorized removals.

RECOMMENDATIONS:
It is recommended that management design and implement controls to periodically review employee access to water meter storage locations to ensure access is restricted to authorized personnel. For water meters in use at service locations and rented out for use by customer on construction projects, it is recommended that management implement the proper safeguards to ensure meters are securely locked to prevent theft or unauthorized removal and damage.

UTILITY DEPARTMENT'S MANAGEMENT RESPONSE:
The Utility Department agrees with the finding of the security issue of the water meter inventory storage location and the rented fire hydrant water meter needing to be locked.

Utility Management understands the concern of the broken water meter box lids, however, it is difficult to daily or even monthly survey each meter box lid to ensure it is not broken. However, once a lid is brought to the attention of the Department or found in the field by Departmental staff, the lid is replaced as soon as possible.

After the findings were presented to Utility Department Management, security measures were tightened at the water meter inventory storage locations. Additionally, these locations are secured using the Brivo Electronic Security system which requires an electronic RFID card to access the meters and logs the access in a database for future review should the need arise.

As stated above, when meter box lids are found or reported damaged, the issue is addressed immediately, normally by replacing the meter box lid or the entire meter box.

All hydrant meters are now installed and locked/secured to prevent unauthorized movement of the meter. This not only addresses the concerns of audit but allows for other security safeguards outside of the scope of these finding.

RESPONSIBLE PARTY:
McAvoy, Utilities Director

ESTIMATED DATE OF COMPLETION:
Completed before August 25, 2020.

ASSESSMENT OF RESPONSE:
Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

FINDING #7 – METERS RENTED FOR FIRE HYDRANT USE WERE NOT LOCATED AT CONTRACTED LOCATION.

BACKGROUND:
When contractors are working on City construction projects or private construction projects, the contractor will contact Utilities to request a meter to be rented to the fire hydrant at the location for water usage. If the project is City related, there is no charge to the contractor for the water used from the project. If the project is private, the contractor is charged for water usage from the hydrant location.

When the contractor contacts Utilities (usually verbally, over the phone), a Fire Hydrant Meter Order Form is filled out by the Utilities representative. Information is gathered such as, Date, Name, Location, Billing Address, Start Read of the Meter to be assigned, Fees to be collected, etc. Once the form has been completed, Utilities email the order form to the Customer Service Group for processing. When payment has been received from the contractor, a confirmation receipt is emailed back to the Meter Technician Team. The Meter Technician will set a time to meet with the contractor to sign the Meter Rental Agreement.

FINDING 7:
Meters rented for fire hydrant use were not at contracted location. Internal Audit identifed two (2) meters out of twenty-five (25) fire hyrant meters tested were not located at the contracted locations.The meters identified were meters that had been relocated during the contract period. No policies and procedures were in place to manage meter relocations during the audit period (FY2018-FY2019). Management would either cross out the orginal location on the contract and/or add the new location on a sticky note to the agreement. Two (2) meters tested did not have the supporting contract, order form, and payment confirmations for the meter rental. However, management was aware where the meters were located.

RECOMMENDATIONS:
It is recommended that management maintain the proper documentation to support the use and location of water meters that have been rented by third parties. Management should formally document policies and procedures for fire hydrant meter rentals and the relocation of fire hydrant meters during a contract period. Contracts should also include a rental end date and renew agreements as needed.

UTILITY DEPARTMENT'S MANAGEMENT RESPONSE:
The Utility Department agrees with the finding. As stated above in Finding #6, all hydrant meters are now installed and locked/secured to prevent unauthorized movement of the meter.

Additionally, the process is scheduled to undergo a full review and upgrade of the procedures to follow. A SOP will be generated to account for the proper documentation of ordering, installation, and movement of hydrant meters.

RESPONSIBLE PARTY:
McAvoy, Utilities Director

ESTIMATED DATE OF COMPLETION:
The security measures for hydrant meter installation is in place.

The review of the process will begin in the fourth quarter of 2020 and the new SOP and process will be in place by end of second quarter 2021.

ASSESSMENT OF RESPONSE:
Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

Acknowledgement Statement

September 15, 2020

SUBJECT: PHASE II WATER METER AUDIT - WATER METER INVENTORY MANAGEMENT AUDIT

I acknowledge that the management responses contained in the above referenced report are those of the Utility Department. I also understand that this document will become a part of the final audit report that will be posted on the Internal Audit's website.

Sincerely,

Lance McAvoy
Utility Department

Finding #1 - #2 - Water Service Locations Are Not Properly Captured In City Records.
Utility Department's Management Response:

Finding #1: This site was a long term, inactive account that was not transferred properly from the old "ArkBest" system to the new Tyler/Munis ERP system.

Finding #2: Although the addresses currently used do not match the current University of Arkansas – Fort Smith's campus's identified service locations, the campus is billed appropriately for the water delivered to the campus.

The Utility Department is currently obtaining the location using global position satellite (GPS) location of each meter. Phase II will be a deep review to ensure the proper customers are being billed and duplicate customer account numbers being removed.

Responsible Party:
Lance McAvoy, Utility Director

Implementation Date:
The GPS location of all meters is currently underway. The time frame for project completion is late 2021 dependent on weather, work load, and other factors. A standard operating procedure will be written that includes all new meter installations' GPS data being recorded at the time of the installation and tied to the proper service address. This will allow for meter locations to be tracked in the City's GIS system.

The Tyler/Munis Phase II portion is currently in the discovery scope phase as part of the software update. It is the Department's hope that the Phase II will be completed at the same time as Phase I, or shortly thereafter.

Finding #3 – Annual Physical Inventory Counts and Water Meter Inventory Reconciliations to the General Ledger are not Performed.
Utility Department's Management Response:

The current Utility Department Management was not aware of the City's Fixed Asset policy until this audit. Based on the knowledge of the current Utility Management, meters would not have been designated as a fixed asset as each meter is less than the $20,000 capital threshold. Based on the review of the policy the Utility Management does not dispute the finding and the overall meter inventory is greater than the $20,000 threshold. The meter inventory "in use by customer" was maintained by the Finance department until late 2018 or early 2019. Loss of key personnel and the lack of documented processes exasperated the issue.

The Utility Department is now aware of the Fixed Asset Policy provided for this audit and will work with the Finance Department to ensure proper compliance.

Staff is currently working on an inventory standard operating procedure (SOP) to aid in the accurate and complete accounting of the water meters. This will include not only the proper method but frequency of meter inventory.

Responsible Party:
Lance McAvoy, Utility Director

Implementation Date:
The SOP for all inventories will be completed by the end of first quarter 2021.

Finding #4 – Disposal of Scrapped Meters is not Properly Recorded.
Utility Department's Management Response:

The Utility Department agrees with the finding.

As stated in response to Finding #3, the process that was followed did not comply with the City's Fixed Asset policy as meters were not viewed as fixed assets.

The Department will write an internal policies and SOP for the proper removal and disposal of meters from inventory.

The meter disposal will be bid out and then the Department will seek Board of Directors' approval for the disposal. This will be a joint project with Finance, Purchasing, and Utility.

The second item is to determine if the Tyler/Munis system can properly track meters that have been disposed of through either scrap or sale. Currently meters are placed in the "junk" category in the Tyler/Munis system when a meter is taken out of service and is deemed ready for disposal. Staff will check with ITS to determine if the designation could be changed to "disposed of" or something similar to better track the complete removal of the meter from the system. The Utility Department will provide the Finance Department a report after the meters are properly disposed of for proper asset management tracking.

Responsible Party:
Lance McAvoy, Utility Director

Implementation Date:
The policy and SOP will be completed by the end of December 2020.
Bidding the meter disposal and seeking Board of Directors' approval will be completed as soon as possible. As there are other departments involved, Utility will work to have this completed no later than February 2021.

Tyler/Munis tracking will be investigated with the ITS staff. If it is possible, the action will be requested to be completed by ITS by the end of September 2020.

Finding #5 – Access to Meter Inventory Records in the Munis ERP System is not Restricted to Authorized Users.
Utility Department's Management Response:

The Utility Department agrees with the finding.

A meeting was held with Sarah Byers, ITS Project Manager, to review all roles in the Tyler/Munis UB and meter inventory system to ensure all roles were accurate and to remove those who did not need access. It was also found that temporary access could be granted if needed due to key staff being out due to illness, vacation, or leave. This access is only granted upon request of Utility Management.

On a minimum of an annual basis, the Utility Director or his/her designee will review the employee access permission list in Tyler/Munis UB to ensure that the employees have the correct access and no one has made changes to the access without proper authorization. This list will be provided to the Internal Audit Department annually for their records.

Responsible Party:
Lance McAvoy, Utility Director

Implementation Date:
Completed on August 25, 2020.

Finding #6 – Physical Security to Water Meter Assets is not Properly Restricted and Maintained.
Utility Department's Management Response:

The Utility Department agrees with the finding of the security issue of the water meter inventory storage location and the rented fire hydrant water meter needing to be locked.

Utility Management understands the concern of the broken water meter box lids, however, it is difficult to daily or even monthly survey each meter box lid to ensure it is not broken. However, once a lid is brought to the attention of the Department or found in the field by Departmental staff, the lid is replaced as soon as possible.

After the findings were presented to Utility Department Management, security measures were tightened at the water meter inventory storage locations. Additionally, these locations are secured using the Brivo Electronic Security system which requires an electronic RFID card to access the meters and logs the access in a database for future review should the need arise.

As stated above, when meter box lids are found or reported damaged, the issue is addressed immediately, normally by replacing the meter box lid or the entire meter box.

All hydrant meters are now installed and locked/secured to prevent unauthorized movement of the meter. This not only addresses the concerns of audit but allows for other security safeguards outside of the scope of these finding.

Responsible Party:
Lance McAvoy, Utility Director

Implementation Date:
Completed before August 25, 2020.

Finding #7 – Meters Rented for Fire Hydrant use were not Located at Contracted Location.
Utility Department's Management Response:

The Utility Department agrees with the finding. As stated above in Finding #6, all hydrant meters are now installed and locked/secured to prevent unauthorized movement of the meter.

Additionally, the process is scheduled to undergo a full review and upgrade of the procedures to follow. A SOP will be generated to account for the proper documentation of ordering, installation, and movement of hydrant meters.

Responsible Party:
Lance McAvoy, Utility Director

Implementation Date:
The security measures for hydrant meter installation is in place.

The review of the process will begin in the fourth quarter of 2020 and the new SOP and process will be in place by end of second quarter 2021.

OTHER OBSERVATIONS

- During the physical count of residential service locations, two (2) water service locations with active water taps did not have water meters installed. Water consumption at the service locations cannot be captured without water meters installed.
  The Utility Department agrees with the observation, however, there are no current customers at these service points so the meters were not present to prevent unauthorized the use of water.
- During the warehouse inventory count, six (6) water meters sampled had installation dates that should have been the purchase dates in the inventory record.
  The Utility Department agrees with the observation. Through further investigation it was found an error occurred during conversion to the new system.
- Meter inventory records lack necessary information, such as purchase price, to perform proper reconciliations. Fifty-two (52) of the 75 meters tested in warehouse inventory did not have the meter purchase price in the meter inventory record.

The Utility Department agrees with the observation. The proper purchase prices are now being entered for all new meters.

- The useful life of water meter assets is not consistently determined and applied. The City's Fixed Asset policy does not provide guidance on the useful life of water meter assets. Internal audit reviewed the water meter asset records maintained in the general ledger and noted useful lives ranging from 5 to 10 years for the same types of meters. Based on research of comparable utilities and best industry practice, the useful life of water meters placed in service range from 15 to 20 years.

  The Utility Department agrees with the observation, with the exception of the 15 to 20 year lifespan. The American Water Works Association (AWWA) has several standards with regards to water meter testing and installation, however, AWWA does not have a standard life expectincy for water meters. It is recommended that meters are tested on a regular interval depending on the size of the meter. Based on reseach the consences for normal residential meter replacement is every 10 to 15 years with 12 years being the average period of time. A good testing program aids in determining issues with meter life so a proactive replacement program can be established. The Department is hoping to secure funding for a new meter test bench to establish a meter testing program in 2021.

- Depreciation is taken for water meter assets in warehouse inventory that are not in use. Newly purchased water meters received in inventory are depreciated prior to being placed in service.

  The Utility Department disagrees with the observation. The nature of the electronic meter includes an internal battery. The meter's life includes the time it is purchased, held in inventory, and placed in to service due to the degradation of the batterywhether sitting on the shelf or in service. It is for this reason the meters undergo partial depreciation prior to installation.

- Multiple credentials for employee access to meter inventory storage locations are not properly deactivated when no longer in use.

  The Utility Department agrees with the observation. The Department is working with ITS and HR to provide a proper on-boarding, through-boarding, and off-boarding process for Utility Department employees. This would aid in every facet of the Department, not just meter storage.

PREPARED BY

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