





EXECUTIVE SUMMARY

INTRODUCTION

Phase 3 of the Water Meter Audit consisted of performing a review of the water meter billing process. The City of Fort Smith's Internal Audit Department reviewed and tested the inactive usage – vacant addresses.

This audit report issued on November 11, 2020 outlines the findings and recommendations for Water Meter Audit -Phase 3 Inactive Usage Vacant Addresses.

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 billing 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.

IA identified 3 key processes related to Water Meter Billing Process. These include:

- Monthly an inactive usage report is provided to the Customer Service Group
- The Customer Service Tech reviews the inactive usage report to determine if customers should be billed for usage and/or services disconnected
- The Customer Service Tech color codes the inactive usage report

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 new positive displacement meters.

AUDIT SCOPE AND OBJECTIVES

The audit scope considered activities and transactions related to the water meter billing process. 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 the vacant addresses on the inactive usage report were vacant.
To assess the controls over the Utilities Department water meter billing process to ensure completeness and accuracy of the inactive usage report and accountability for completeness and accuracy of those records

PROCEDURES PERFORMED

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

Planning

- Conducted conference calls with Utilities management and Customer Service management;
- Developed and submitted data requests to obtain standard operating procedures (SOPs), processes and control documentation, water meter billing 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 billing 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 inactive usage – vacant address.

Fieldwork

- Conducted physical review of address on inactive usage – vacant address report;
- Verified meter and usage at address;
- Verified account in Utility Billing system;
- Reviewed billing history in Utility Billing system;
- Calculated lost revenue to Utilities and Sanitation; and
- Documented findings and confirmed with Utility Management

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 the vacant addresses on the inactive usage report were vacant.

AUDIT OBJECTIVE 2

To assess the controls over the Utilities Department water meter billing process to ensure completeness and accuracy of the inactive usage report, accountability for completeness and accuracy of those records, and validating the vacant addresses

CONCLUSION

Based on the results of the audit procedures performed, the Utilities Department does not have a proper process and procedure for validating vacant addresses.

- From the 9.16.2020 Cycle 3 Inactive Usage – The Vacant Address report reflected 49 vacant addresses not being billed. Internal Audit visited each location and found that 42 of the addresses were not vacant and had water usage. In some cases, Internal Audit was able to talk with the residents who in some cases indicated that they had lived at the location for several months or longer.

It is notable that Cycle 3 is one of five billing cycles.

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 for maintaining the accuracy of the vacancy report.

IA reviewed the history of billings for the 9.16.2020 cycle 3 Inactive Usage – Vacant Address report and noted that approximately \$18,800 was written off for these vacant locations, presumably related to former residents, approximately \$2,600 was adjusted with no explanation of the adjustment and approximately \$13,500 was outstanding balances.

Based upon a review of six-month inactive usage – vacant address reports and the usage indicated in that report, it appears the City did not bill for approximately \$8,000 in residential water and sewer usage and approximately \$3,000 for sanitation services. It is notable there was no apparent effort to investigate why the report showed water usage at a vacant location.

IA recommends that the Utilities Department review the Inactive Usage – Vacant Address report for each cycle and verify that the address is vacant at least on a quarterly basis. If there is water usage the customer should be billed for the usage. When an address is vacant, the water should be turned off and the meter locked so that the next customer is required to notify Customer Service. Additionally, Sanitation should be notified that an address is vacant so that trash at that address is not collected. IA noted that trash was in fact being picked up for many locations indicated as vacant.

Based upon the number and amounts of write-off balances and outstanding balances, the deposit amount should also be reviewed. The current deposit amount is \$50 for both residential and commercial addresses.

Internal Audit met with the Utilities Director, Lance McAvoy to discuss the findings and recommendations. The Utilities Director agreed that better policies and procedures needed to be implemented and that all of the vacant locations needed to be verified.

Management Responses:

The week of November 16, 2020, the Utility Department will begin ensuring all vacant account water meters are shut off. Below is a high-level view of the actions the Department will undertake.

1. Citizen Services will compile the list of vacant account and address and supply them to the Customer Service Technicians (CST).

2. CST will go to each address, record the current meter reading and shut off the water to the meter if the water is still on.
3. Citizen Service and Analytics will review the future meter reads for the vacant accounts. If the read changes and it is one that was verified as off, CST will pull the meter and lock the pipe. A door hanger will be placed on the residence to contact us to set-up an account. The customer will need to pay from all water used and the deposit prior to water service being restored. If it is a new vacant account, the meter will be read and the water shutoff.
4. All accounts that are closed out going forward will be read and shutoff unless a new account order is already in the system for transfer.

The Department sees this as a policy and procedure to prevent property damage, water loss, possible revenue loss, and identify other areas of concern.