

Office of the City Auditor and Clerk

Internal Audit



UTILITIES BILLING REVENUE AND CASH RECEIPTS

Audit #22-10

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A handwritten signature in blue ink that reads "Shayla Griggs". The signature is written in a cursive style.

Shayla Griggs, City Auditor and Clerk

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Executive Summary

Audit #22-10 Utilities Billing Revenue & Cash Receipts

Audit Purpose, Scope and Time Period

Internal Audit performed an operational/compliance audit of the City of Sarasota's Utilities Billing cash receipt procedures.

The purpose of this audit was to provide reasonable assurance that there are adequate controls for the customer billing process.

The scope of this audit included a review of the City's water utility billing processes, customer rates, adjustments, deposits, and cash receipt procedures. The audit period was from March 1, 2021 through February 28, 2022.

Audit Objectives

The audit focused on the following objectives:

- 1) Determine if internal controls are operating as intended for safeguarding cash collections and payments are recorded properly related to Utilities Billing.
- 2) Determine if applicable customer rates, adjustments and deposits were applied correctly.

Summary Background

Utilities Billing is responsible for the billing and collection of fees for water, sewer and solid waste services provided by the city. Utilities FY 2021 total billed services were \$52,599,532.

Summary of Conclusions

- Controls appear to be operating as intended for safeguarding cash collections and customer payments.
- Controls over customer billing, adjustments and deposits should be improved to ensure proper billing and monitoring of customer accounts.

At the conclusion of the audit management is in the process of implementing controls over the above items, see detailed audit report for management responses.

This Executive Summary is limited in detail. To obtain the full background on a particular item, please read the Detailed Audit Report or contact Internal Audit prior to drawing conclusions based upon the limited information contained in this summary.

Detailed Audit Report

Audit #22-10 Utilities Billing Revenue & Cash Receipts

Background and Introduction

Sarasota's Utility Department provides water, sewer, and solid waste collection for city residents and a few neighboring locations outside of city limits. As of July 31, 2022 the City of Sarasota services 19,923 water accounts and 17,873 sewer accounts.

On August 19, 2019, the City Commission adopted Ordinance No. 19-5296, which amended Chapter 37 of the Sarasota City Code. This ordinance established the rates for Fiscal Year (FY) 2020 through FY 2030.

The Utilities Billing office is responsible for billing for services at the established rates and the collection of all Utility's customer payments. The office is normally staffed by four cashiers to receive payments and assist with customers inquiries Monday through Friday.

Payments are received through multiple sources:

1. Payment in person at billing office - immediate payment recognition on billing software
2. Mail in bottom tear off remittance on the bill - payment received in lockbox
3. Payment by IVR phone - immediate payment recognition on billing software
4. Payment on web portal - immediate payment recognition on billing software
5. Express Pay - ACH payment process debits customer checking or savings account electronically on the bill due date
6. Billing Office PO Box - mail collected daily, payment applied to customer's account
7. Billing Office outside drop box - collected daily, payment applied to customer account
8. Payment at any Amscot location - payment batch received next business day

Each cashier completes an end of day report for all payments received. Daily receipt totals are reviewed and summarized before forwarding to the Financial Administration Department (FAD) for conversion and automated posting into FMS, the City's accounting software. Additional cash receipts not included in the automated postings for overages, shortages and permits are entered by Utilities Billing staff. FAD staff confirms Utilities Billing cash deposit entries against the bank deposits.

Utilities Billing utilizes Central Square billing software and Excel spreadsheets to track daily customer payments. The current billing software is budgeted to be replaced and updated next year.

Utilities FY 2021 total billed services were \$52,599,532.

Audit Standards

The auditors conducted this audit in conformance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require 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 findings and conclusions based on the audit objectives.

Audit Purpose, Scope and Time Period

The purpose of this audit was to provide reasonable assurance that there are adequate controls for the customer billing process.

The scope of this audit included a review of the City's water utility billing processes, customer rates, adjustments, deposits, and cash receipt procedures.

The time-period of this audit was March 1, 2021 through February 28, 2022.

Audit Objectives

The audit focused on the following objectives:

- 1) Determine if internal controls are operating as intended for safeguarding cash collections and payments are recorded properly related to Utilities Billing.
- 2) Determine if applicable customer rates, adjustments and deposits were applied correctly.

Testing Methodology

- Interviewed appropriate Utilities Billing personnel
- Reviewed policies and procedures, and evaluated internal controls, related to:
 - Billing statements,
 - Customer rates,
 - Adjustments,
 - Deposits,
 - Write-offs, and
 - Safeguarding cash collections and payments.
- Performed site visits of the Utilities Billing office
- Observed physical security in place in and around the Utilities Billing office
- Evaluated compliance with City and Utilities Billing office billing procedure, customer billing adjustment and cash handling instructions
- Reviewed Utilities Billing office user access to software, as applicable
- Evaluated segregation of duties concerning charging customer rates and adjustments
- Examined a sample of:

- Billing statements,
- Account adjustments,
- Collected deposits, and
- Deposit refunds.

To achieve the audit objectives, sampling techniques were utilized to select a random testing sample of daily Utilities Billing receipts throughout the 12-month testing period.

Audit Criteria

- Sarasota City Code, Chapter 37
- City of Sarasota Ordinance No. 19-5926
- Utilities Billing cash handling policies and directives
- Government Auditing Standards (GAO) “General Standards for Preparing Accounting Records and Financial Standards”

Audit Observations and Testing

For **objective one**, we determined that controls are in place and functioning as intended to provide reasonable assurance for the safeguarding of cash collections.

For **objective two**, we determined that Utilities Billing controls over the customer rates, adjustments and deposits should be improved to ensure proper billing and monitoring of customer accounts.

Observations

Cross-Departmental Collaboration – During testing IA reviewed Utility processes and determined there are opportunities for better understanding between individual City departments regarding their operations impact on Utility Billing, i.e., billing accounts correctly. New construction, building additions, repairs and maintenance on meters require cross departmental collaboration with Utility Billing to properly account for changes and updates to customer accounts. Other departments such as Utilities Engineers or our Permits and Licensing department do not consistently keep the Utilities Billing Manger appraised of projects under construction or the completion of the projects via Certificates of Occupancy. Below are some areas that are impacted.

- **Meter Repairs** – When an employee cannot get a meter reading, Utilities Billing investigates to determine what the issue is and then the issue is entered into WorkForce (current software for tacking work orders) for Utilities (across the street) to repair or replace the meter. IA has determined that there are at least 13 meters, of the auditor sample, that have used estimated usage, during the audit period, for three consecutive months or longer that still need to be repaired. Continuing to estimate bills for long periods of time could result in water and sewer usage that is not being captured or billed.
- **Control Failure/Consumption Overrides** – When a meter is not repaired timely after being entered in WorkForce, as noted above, it forces the Utilities Billing department to use estimates to bill the customer. The billing system allows only two consecutive bills with an Estimate (“E”) before it will not bill the account until an actual reading is obtained. However, management can

use a Consumption Override (“C”), to override this control by hard keying in a usage estimate. In the example above, the 13 meters have been billed using consumption override estimates for more than three months and one for longer than 28 months.

- **Hydrant Meters-** These meters are kept in inventory at Utilities (across the street). Utilities provides these hydrant meters to contractors to install during the construction phase of a project. IA testing determined that Utilities is not consistently informing Utilities Billing when they are provided, to which contractors they are provided and which corresponding meter numbers are given to whom. These are generally large meters, and the City could potentially lose revenue if Utilities Billing is not notified when hydrant meters are issued so that proper timely billing can be done.
- **Units Used to Calculate Base Charge** – The auditor selected a random sample of 379 monthly billing statements between the dates of March 1, 2021 and February 28, 2022. During review, one account, a multi-unit condo, was identified as being billed for monthly base charges for 51 total units. However, the audit determined the condo has 105 units. This resulted in base charges being underbilled for 54 units. Audit testing identified another multi-unit condo account that had an addition added onto the property, adding approximately 70 more units. This account was not being properly billed for the new additional units, resulting in base charges being underbilled.

Management was made aware of these two accounts; one has been corrected in the utilities billing system and the other is in the process of being corrected.

During field work the auditor determined that management is aware of the above items and is in the process of:

- Repairing and replacing non-functioning meters,
- Implementing additional secondary review for estimates and consumption overrides,
- Ensuring that all departments with an active role in the Utilities billing process are aware of their impact and that the lines of communication are open between the departments, and
- Implementing controls over hydrant meter inventory.

Excise Tax – The City of Sarasota requires that an excise tax of 10% be billed for all water usage, base charges, and ready-to-serve charges. During testing, IA discovered excise tax was not being correctly charged on 66 out of 379 accounts tested. Several accounts with a Fireline and some accounts with Reuse were not being charged excise tax. IA provided Utilities Billing with a copy of the ordinance. After review of the ordinance, Utilities Billing agreed these items should be included in excise tax and is taking the measures to review all accounts affected by this to make sure excise tax is charged correctly moving forward. It was indicated that likely there were accounts not being billed excise tax, going back to 1980 when the ordinance was instituted, resulting in underbilling of excise tax.

During field work the auditor determined that management is in the process of correcting all accounts to accurately reflect excise tax and is also in communication with the software vendor to ensure new accounts are billed correctly.

Observations and Recommendations – Customer Billing

Write-off Process – The Utilities Billing Manager compiles and reviews monthly billing reports for delinquent accounts. Previously, there was a secondary review of the monthly listing; however, currently the Utilities Billing Manager is the only person that compiles the list, reviews it, performs necessary write-offs, and sends delinquent accounts to collections. Additional review is not being performed, and no one else has been trained to perform the write-off process.

Internal Audit Recommends

- Training the Utility Billing supervisor on the write-off process and have them take over this duty. Once the supervisor has then researched and compiled the list, the Utility Billing Manager should review and approve the accounts to be sent to collections.

Management Response

Management agrees with Internal Audit’s recommendations and will implement them by December 31, 2022.

Observations and Recommendations – Adjustments

Adjustments - Administrative Regulation No. 151.A003.0219 is the policy and procedure that provides guidance for account adjustments. In general, the Administrative Regulation states that: (1) customers must provide a receipt from a professional detailing the repair and parts used, customers with self-repair need to provide a notarized affidavit stating a summary of the consumption problem, the month in which the increased consumption occurred, and the repair date along with submitting any documents providing proof repair has been made, (2) only a maximum leak adjustment period of two consecutive months is allowable, (3) no credits will be issued for high irrigation use or equipment failure, (4) the customer receiving the credit has not received an adjustment in the previous 12 months for water line leaks and 24 months for pool adjustments. The policy also provides the adjustment calculation and form for both residential and commercial customer. However, audit testing identified instances of adjustments for irrigation, irrigation equipment malfunctions, goodwill credit, credits issued for three months of leak adjustments instead of two, and credits given when a customer has had a previous adjustment in the previous 12 months. Audit testing also determined that calculation is not being followed which appears to be giving customers a 50% adjustment of the allowable water instead of 100%. IA also noted there were no documented approvals on the adjustments before being posted to the customer’s account.

Internal Audit Recommends

- Following the current Administrative Regulation to correctly reflect the current process for customer account adjustments. If updates to the policy are deemed necessary, the policy should be updated and approved. Once the regulation has been updated, it should be followed, and all customer account adjustments should have the proper approvals documented.

Management Response

Management agrees with Internal Audit's recommendations and will implement them by December 31, 2022.

Observations and Recommendations – Deposit Refunds

Deposit Refunds – City of Sarasota Code Chapter 37-28 requires that deposits are to be refunded to the customer upon establishing a satisfactory payment record and completing a 12-month continuous service period. Once this is established the City shall refund the principal amount of the deposit provided that the customer has not:

- Made more than one late payment of a bill during the preceding 12 months,
- Paid with a check refused for payment by a bank or similar institution,
- Been disconnected for nonpayment,
- Tampered with the meter, or
- Used service in a fraudulent or unauthorized manner.

During review of 25 refunded deposits, the auditor noted five refunds that were credited to the customer's account even though the customers had two or more late payments in the preceding 12-month period. Upon discussion with the Utilities Billing Manager, it was determined that these refunds are provided systematically by the software system.

Internal Audit Recommends

- Working with the software vendor to identify and correct issues in the software where the system is automatically refunding deposits even though the customer does not meet the requirements for deposit refund.

Management Response

Management agrees with Internal Audit's recommendations and will implement them by December 31, 2022.

Audit Conclusions

The observations noted above could generally be resolved with cross-departmental collaboration, additional management review over the write-off process, additional staff training, and modifications to the billing software. Although adequate controls appear to be in place over the billing process, the recommendations noted above would improve the effectiveness of the overall billing process and help ensure that customers are billed accurately and in accordance with Chapter 37 of the Sarasota City Code. We recommend management implement the noted recommendations to strengthen controls and mitigate the risks over the billing process.

We would like to thank Utilities Billing personnel for providing their time and assistance during this audit.