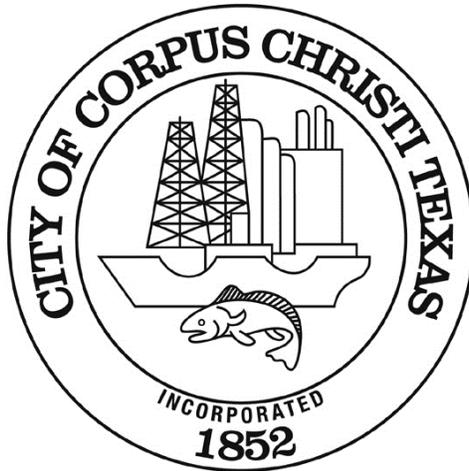

CITY OF CORPUS CHRISTI

CITY AUDITOR'S OFFICE



Audit of Utility Billing and Collections

Project No. AU12-001

February 21, 2013

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Executive Summary

In accordance with the FY 2012 Annual Audit Plan, we conducted an audit of the Utility Business Office in the Financial Services Department of the City of Corpus Christi (City). The focus of this audit was to determine whether customers are properly billed for utility services and appropriate internal controls are in place to determine compliance with City policies and procedures. The scope period for this audit was for the twenty-one month period of August 1, 2010 to April 30, 2012.

Highlights of this report include the following:

- Fees not consistently assessed for customer service deposits, application and connection fees.
- Insufficient internal controls in charging manual fees accurately, timely posting charges to customer accounts, and maintaining support documentation on file for wastewater pre-treatment fees, solid waste cart fees, large volume natural gas and CNG.
- Insufficient internal controls to ensure utility customers are billed for wastewater and solid waste services received.
- Insufficient internal controls in place to ensure that UBO is estimating meter reads in accordance with City policy and Ordinance.
- Customer payment plan policies and procedures contain some inaccuracies, lack payment terms and periods, and enforceability.
- UBO is not adequately maintaining customer plan agreements.
- Insufficient data in the HTE system to determine if 'extensions to pay' granted to some utility customers are in accordance with City policy.
- Insufficient controls in place for processing utility refund checks due to some customers.
- Delinquent accounts are not consistently disconnected due to non-payment of utility services.
- Insufficient management oversight over the process to write-off delinquent utility billing accounts.
- Lack of oversight over manual adjustments and metered waste credits.
- Inadequate administration of Robstown utility accounts receiving wastewater services in select Robstown areas.
- Incompatible duties with UBO staff that should be segregated.
- Shared/generic user identity and password used among UBO staff.
- System access not deactivated for terminated employees.

We recommend that City Management:

- Ensure that customer service deposits are assessed in accordance with City ordinance and policy.

- Ensure compliance with City ordinance when assessing utility customers an application or connection fee when application for new services are accepted or transferred to a different address.
- Establish controls to ensure customers are accurately billed and charges are timely posted to their accounts for BOD and TSS charges, solid waste cart fees, and large volume natural gas and CNG.
- Ensure billing records are adequately maintained and are in compliant with records control schedule.
- Ensure utility customers are billed for wastewater and solid waste services received.
- Develop procedures for establishing and monitoring 'water only' accounts.
- Ensure compliance with City policy when estimating bills and City ordinance when calculating estimated bills.
- Ensure that customer payment plans policies and procedures are in agreement regarding the treatment of customers that have defaulted in payment plan agreements.
- Define whether down payments are required, the amounts to be paid, and ensure that it is consistently applied to all utility customers entering into a plan agreement with the City.
- Revise payment plan procedures to address payment plan terms and payment periods.
- Ensure compliance with policy or revise policy to require medical necessity or other hardship to qualify for a payment plan.
- Ensure that an accurate and complete record of information is maintained in HTE so customer history can be properly identified, tracked, and monitored for compliance with City policy.
- Establish internal controls to ensure that utility refunds are properly processed, approved by management, and adequately substantiated.
- Ensure that unused check stock is kept in a secured location with periodic inventory taken.
- Ascertain procedures for reconciling the automated and manual check registers kept for utility refunds.
- Establish procedure for keeping inventory of unused check stock to account for all checks issued from City Treasurer.
- Ensure compliance with City ordinance and disconnect utility services for customers that are delinquent in payment.
- Develop policies and procedures for processing utility account write-offs to include obtaining approval from City Management and City Council prior to writing off delinquent accounts.
- Ensure City policy and procedures are consistent with Code of Ordinance with the period allowed to make adjustments to customer utility accounts.
- Establish procedures to ensure utility account adjustments are properly approved by respective department and are adequately supported.
- Ensure compliance with City ordinance and develop policies and procedures for the administration of metered waste and irrigation credits.
- Identify all Robstown customers and ensure collectability for City services provided.
- Ensure all Robstown customers are receiving City services in accordance with City ordinance.

- Enter into an agreement with the Nueces County Water Control Improvement District to address the disconnection of wastewater customers for non-payment.
- Ensure that utility customers within the City of Corpus Christi are receiving water services in accordance with Code of Ordinance.
- Ascertain procedures for accurate activation of accounts connected to City sewer lines.
- Ensure that residential Robstown addresses are billed in accordance with the Code of Ordinance.
- Assign appropriate number of staff to adequately segregate incompatible duties among UBO staff.
- Ensure employees are not sharing user IDs and passwords
- Ensure timely revocation of HTE access privileges for terminated employees.

Table of Contents

Executive Summary	i
Background.....	1
Statutory Authority and Municipal Guidelines	1
Audit Objectives	2
Audit Scope and Methodology.....	2
Audit Results and Recommendations.....	4
A. Fees not Consistently Assessed	4
A.1 Customer Service Deposits	4
A.2 Application and Connection Fees	5
B. Insufficient Internal Controls in Manual Charges and Estimating Meter Reads.....	6
B.1 Wastewater Pre-Treatment Fees.....	6
B.2 Solid Waste Cart Fees.....	7
B.3 Large Volume Natural Gas and CNG	8
B.4 Wastewater and Solid Waste Services	9
B.5 Estimated Meter Reads	10
C. Inadequate Administration of Customer Payment Plans	10
C.1 Policies & Procedures.....	10
C.2 Maintenance of Payment Plan Agreements.....	12
D. Insufficient data in HTE for Customer Extensions	13
E. Insufficient Controls in Processing Refund Checks	13
F. Delinquency and Customer Write-offs	15
F.1 Delinquent Accounts Not Consistently Disconnected for Non-payment	15
F.2 Insufficient Oversight of Bad Debt Write-off Process.....	16
G. Lack of Oversight in Manual Adjustments and Metered Waste Credits	17
H. Inadequate Administration of Robstown Accounts	18
I. Segregation of Duties and HTE System Access	20
I.1 Segregation of Duties	20
I.2 Shared/Generic User Identity and Password	21
I.3 Access not De-activated for Terminated Employees.....	21

Background

The City provides public utilities of water, waste water, gas and/or solid waste for approximately 75,500 residential, commercial, and industrial utility accounts in Corpus Christi and select Robstown customers. According to the Comprehensive Annual Financial Statements for Fiscal Year 2011, charges for utility services were approximately \$229.8 million. The Utility Business Office (UBO), a division of Financial Services Department, is supported by the Utility Field Office (UFO). UBO and UFO work together to service utility customers by issuing bills, resolving account discrepancies, reading meters, creating work orders, initiating and terminating services, and conducting collection activities for delinquent accounts. Both UFO and UBO are wholly funded by the Water, Storm Water, Waste Water, and Gas Departments.

In 2004, the City moved to implement automatic meter readings (AMR). There are approximately 152,589 meter transmission units city-wide. Star is the software system used to obtain the automated meter readings. Monthly billings are coordinated into twenty-one meter reading cycles throughout the City. For each billing cycle, AMR data is downloaded from Star and uploaded into the utility billing system, HTE. Meters that have not been converted or are automated but malfunctioning are obtained manually by either a handheld device or work-order, which are then downloaded directly into HTE.

UBO is staffed by 17 City employees and two temporary employees with a budget of \$2,078,574 for FY2012. UFO is staffed by seven City employees and seventeen temporary meter readers with a budget of \$2,290,353 for FY2012.

Statutory Authority and Municipal Guidelines

In conducting our audit, we relied on the following authoritative guidelines to serve as criteria for the audit:

- Texas Administrative Code, Title 30, Part 1, Texas Commission on Environmental Quality;
- City ordinance Chapter 21 Article IV Resource Recovery Fee Schedules;
- City ordinance Chapter 55 Article II Rules and Regulations of the Utilities Business Office;
- City ordinance Chapter 55 Article III Water Rates and Charges;
- City ordinance Chapter 55 Article IV Gas Rates and Charges;
- City ordinance Chapter 55 Article V Taps and Connections;
- City ordinance Chapter 55 Article VI Waterworks;
- City ordinance Chapter 55 Article VII Wastewater Rates;
- City ordinance Chapter 55 Article XI Commercial Industrial Waste Disposal and Pretreatment;
- City Policy UBO 1.0 Utility Accounts Adjustments Policy, which addresses the process for utility bill disputes;
- City Policy UBO 1.1 Disconnection for Non-payment Policy, which describes events in which an account may be disconnected;

- City Policy UBO 1.2 Estimated Meters Policy, which describes circumstances for when to estimate a utility meter for billing purposes;
- City Policy UBO 1.3 Utility Accounts Extensions Policy, which outlines procedures for granting customer extensions for payment of utility accounts;
- City Policy UBO 1.5 Security Deposit Policy, which outlines parameters for requiring a service deposit from utility customers;
- City Policy UBO 1.11 Utility Bill Payment Policy, which addresses delinquent utility accounts;
- City Policy UBO 1.13 Damage to Automated meters & Equipment, which establishes fees assessed due to damaged utility equipment;
- City Policy F-27.0 Delinquent Utility Accounts, which provides for payment agreements between the City and utility customers on past-due accounts;
- Inter-Local agreement No. 7751 between the City and City of Robstown for the provision of utility services within Robstown’s boundaries; and
- City ordinance No. 022441, which establishes the criteria for Robstown annexation.

Audit Objectives

The overall objectives of our audit were to:

- Evaluate the billing process for compliance with city ordinance, city policy, and ensure that internal controls are in place and working effectively;
- Determine if the City is properly accounting for the collection of revenue; and
- Determine if controls are in place for the adjustments made to customer accounts.

Audit Scope and Methodology

Our audit scope consisted of approximately 1,584,450 utility bills generated between the period of August 2010 through April 2012. We reviewed manually charges for wastewater pretreatment fees, solid waste carts, large volume gas bills, and compressed natural gas (CNG) vehicle fueling bills. Our review is limited to manual charges listed on this report.

In instances when complete data was not available for the audit scope, we used limited available data for testing. For the twelve month period of May 1, 2011 through April 30, 2012, there were 52,130 delinquent utility accounts, 223 service location transfers, and 232 records of insufficient funds. From August 8, 2010 to May 26, 2011, there were 56 customers issued utility citations for tampering with City equipment.

The examination was designed to evaluate and test compliance with city ordinances, established policies and procedures, and to test the internal control over tested areas and material. The scope of work did not include an analysis of the interface between the automated meter reading systems, Star, and the utility billing system, HTE. Additionally, we did not evaluate internal controls over system access for Star or HTE.

The purpose of the audit report is to furnish management independent, objective analysis, recommendations, and information concerning the activities reviewed. The report is a tool to help management discern and implement specific improvements. The report is not an appraisal or rating of management.

City management is responsible for establishing and maintaining a system of internal controls to ensure assets are safeguarded, financial activity is accurately reported and reliable, and management and their employees are in compliance with laws, regulations, and agreements with other entities.

Our methodology consisted of reviewing statutes, City ordinance, and policies and procedures associated with the utility billing process. We conducted interviews with appropriate management and employees, and performed test work on aspects of the billing and collection process. Some of the areas reviewed are deposit requirements, estimated bills, payment extensions, delinquent account service cut offs, municipal charges to enterprise funds, payment plans, bill adjustments, manually applied charges, billing of Robstown utility customers, and the process for utility refunds. We also performed a limited review of utility account write-offs.

We relied on queries, demand system reports generated out of the HTE and spreadsheets provided by department personnel. We used judgmental sampling for testing to improve the overall efficiency of the audit.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

Audit Results and Recommendations

A. Fees not Consistently Assessed

A.1 Customer Service Deposits

Utility Billing Office (UBO) is not consistently assessing the required customer service deposit on active accounts that have become delinquent, have return payments due to insufficient funds (NSF), or have been given notice of a code violation for unauthorized use. Specifically, we noted the following:

- Of the 52,130 delinquent utility accounts in May 1, 2011 through April 30, 2012, we judgmentally selected 30 accounts for review. We noted 30 did not have a service deposit on account.
- Of the 232 customer accounts with NSFs in May 1, 2011 through April 30, 2012, we judgmentally selected 35 accounts for review. We noted 34 did not have a service deposit on account. Four customers had up to seven NSFs.
- Of the 56 customers issued citations by Utility Code Enforcement in August 8, 2010 through May 26, 2011 for tampering with city equipment, we judgmentally selected eight accounts for review. We noted eight did not have a service deposit on account.

According to Code of Ordinance, a security deposit is required if an account has become delinquent¹ or if the customer tampered with city equipment to receive city utility service. Additionally, city policy requires a security deposit on accounts that have had more than two non-sufficient fund checks within a twelve-month period.

Service deposits were not assessed because staff did not interpret the City's Code of Ordinance appropriately. Requiring a service deposit from utility customers that are delinquent in their accounts or have NSF checks increases the recovery of unpaid charges.

Recommendation(s)

Management should ensure that customer service deposits are assessed in accordance with City ordinance and policy.

Management's Corrective Action Plan with Completion Date(s):

NSF deposits - UBO will change the Utility Accounts Security Deposit Policy to not require a deposit when NSF checks are received due to the difficulty in tracking NSF occurrences.

¹ An account is considered delinquent if two delinquent bills are issued or disconnection of service for non-payment occurs once within a twelve month period.

Delinquent Deposits – UBO will apply deposits on all accounts that are disconnected for delinquency. A system rule will be explored to automatically apply deposit (1/6 of last 12 months bills or average bills multiplied by 2).

Tampering – Code Enforcers will notify billing supervisor of all accounts found to have evidence of tampering. Billing Supervisor will instruct UBO and Call Center staff to apply deposit on all new accounts where tampering was found on a previous account of the customer.

Time to complete – August 1, 2013

A.2 Application and Connection Fees

UBO is not consistently assessing utility customers an application or connection fee when new services are activated or transferred from one location to another. Of the 223 utility accounts in our audit scope with transferred utility services, we judgmentally selected 30 accounts to review and noted 19 accounts not charged a connection fee. Of 49,148 records with new utility services, we judgmentally selected 30 accounts to review and noted 11 accounts not charged an application fee.

According to the Code of Ordinance, an application fee or connection fee for applications of new services or transfers of services will be charged. An application fee was not charged due to staff oversight. Not assessing required utility fees results in lost revenue to the City.

Recommendation(s)

Management should ensure compliance with the Code of Ordinance and assess utility customers an application or connection fee when application for new services are accepted or transferred to a different address. If management opts to no longer assess the charges, the ordinance should be revised to no longer require the assessment of these fees.

Management's Corrective Action Plan with Completion Date(s):

UBO will comply with the ordinance. Call Center and UBO staff will be instructed to charge \$25 application fee and transfer fee on all new accounts and transferred accounts.

Time to complete – April 1, 2013

B. Insufficient Internal Controls in Manual Charges and Estimating Meter Reads

B.1 Wastewater Pre-Treatment Fees

There is a lack of internal controls in charging wastewater pre-treatment fees accurately, timely posting these charges to customer accounts, and maintaining support documentation on file. The City charges certain utility customers² wastewater pre-treatment fees such as biochemical oxygen demand index (BOD) and total suspended solids index (TSS). Out of 758 general citywide utility bills and 21 industrial utility bills in our audit scope, we judgmentally selected 51 for review and noted the following:

- 29 did not have documentation on file to support charges assessed. City records control schedule specify that bill copies or statements utilized in collection of money due the City, such as utility receivables, are to be kept for three years from the fiscal year end.
- 14 were not timely posted to the customer's account. Two customers had the BOD-TSS charge posted to their account after 80 days.
- 15 did not get billed the correct BOD surcharge, which resulted in a net \$13,128 over billed. Five were a result of incorrect consumption entered into the billing system by UBO staff.
- 7 did not get charged the correct TSS surcharge, which resulted in a net of \$51 under billed.
- 6 did not get assessed the \$95 lab fee totaling to \$570 not billed.

According to the Code of Ordinance, BOD and TSS surcharges are to be adjusted in the month following new test results. However, these charges did not get assessed because there are no procedures in place for the process of manually applied utility charges nor is there management oversight to ensure the assessed charges are accurately and timely posted to accounts. Billing delays and clerical errors result in inaccurate billings to utility customers.

Recommendation(s)

Management should:

- 1) Establish controls to ensure BOD and TSS charges are accurately billed and timely posted to customer accounts.
- 2) Ensure billing records are adequately maintained and are compliant with the records control schedule.

Management's Corrective Action Plan with Completion Date(s):

Expand on the current procedure to establish proper levels of internal control. Billing Supervisor, Utility Accounts Manager or Assistant Director will be assigned monthly review and approval duties depending on employee entering charges. A coordinated effort will be established with the Wastewater Department to assure information for

²Utility customers generating wastewater in excess of prohibitive discharge standards, categorical pretreatment standards, and local limits are charged a pre-treatment fee and/or lab testing fee. Such customers are restaurants, laundry facilities, and industrial users. These customers fall under two categories: general citywide and industrial.

charges is forwarded to UBO on a timely basis. UBO will establish a procedure for reporting back to the Wastewater Department that all charges have been applied. UBO will maintain records for 3 years as required by records retention schedule.

Time to complete – October 31, 2013

B.2 Solid Waste Cart Fees

There is a lack of internal controls in charging additional garbage cart and cart delivery fees accurately, timely posting these charges to customer accounts, and maintaining support documentation on file. In our audit scope, there were 1,626 customers with additional garbage cart requests. We judgmentally selected 30 for review and noted the following:

- 20 had untimely charges posted to their account taking more than two billing cycles or 60 days to post. We noted one charge taking 106 days to post.
- Six did not get assessed the \$10 additional garbage cart fee resulting in \$60 not billed.
- Five did not get assessed the \$10 cart delivery fee resulting in \$50 not billed.
- One customer was overcharged by \$10 for their cart.
- 30 did not have support documentation on file to support the additional charges. City records control schedule specify that bill copies or statements utilized in collection of money due the City, such as utility receivables, are to be kept for three years from the fiscal year end.

According to the Code of Ordinance, additional garbage cart fees and cart delivery fees will be charged to customers requesting additional carts³. These charges did not get assessed because there are inadequate controls for reviewing manual charges for accuracy. Not assessing all required and correct fees to customers in a timely manner results in the City not recouping its revenue timely.

Recommendation(s)

Management should:

- 1) Establish internal controls to ensure additional garbage cart and cart delivery fees are accurately charged and timely posted to customer accounts.
- 2) Ensure billing records are adequately maintained and are compliant with the records control schedule.

Management's Corrective Action Plan with Completion Date(s):

Expand on the current procedure to establish proper levels of internal control. Billing Supervisor, Utility Accounts Manager or Assistant Director will be assigned monthly review and approval duties depending on employee entering charges. A coordinated effort will be established with the Solid Waste Department to assure information for

³ A garbage cart delivery fee is to be assessed for every second and additional residential cart delivered and for every third commercial cart delivered per account.

charges is forwarded to UBO on a timely basis. UBO will establish a procedure for reporting back to the Wastewater Department that all charges have been applied. UBO will maintain records for 3 years as required by records retention schedule.

Time to complete – October 31, 2013

B.3 Large Volume Natural Gas and CNG

Manual charges for large volume natural gas ⁴and compressed natural gas (CNG)⁵ consumers are not timely posted to customer accounts, are not adequately maintained, and are not accurately calculated and charged. In our audit scope, we reviewed consumption for 44 large volume gas consumer bills and 78 CNG consumer bills and noted the following:

- 81 did not have documentation on file to support charge. City records control schedule specify that bill copies or statements utilized in collection of money due the City, such as utility receivables, are to be kept for three years from the fiscal year end.
- 10 large volume consumer bills were not accurately charged. One customer was under billed by \$4,286. Conversely, another customer was overbilled by \$17,733.
- 40 were not billed the CNG vehicle fueling charge resulting in \$2,290 not billed.
- 20 large volume consumer bills did not have charges posted timely exceeding the average 12 days. One bill took as long as 49 days.
- 27 CNG customers were not timely billed. We noted four charges taking one year or longer to post to customer's account. One charge was posted 454 days later.
- 8 CNG customers did not get assessed the federal tax and/or were charged the discounted wholesale rate instead of the retail rate.

According to the Code of Ordinance, large volume gas and CNG consumer billings include a commodity charge in their calculation. The cost of gas (commodity rate) is adjusted each month to market rate. Untimely billing increases the risk that consumers will be billed incorrectly since these charges are calculated based on previous rates.

Recommendation(s)

Management should:

- 1) Establish internal controls to ensure large volume natural gas and CNG consumers are charged accurately and timely posted to their accounts.
- 2) Ensure billing records are adequately maintained and compliant with records control schedule.

⁴ Large volume customers are billed manually because of the consumption level and to ensure accuracy of meter reads and charges.

⁵ This is used by natural gas vehicles fueled by compressed natural gas (CNG).

Management’s Corrective Action Plan with Completion Date(s):

Expand on the current procedure to establish proper levels of internal control. Billing Supervisor, Utility Accounts Manager or Assistant Director will be assigned monthly review and approval duties depending on employee entering charges. A coordinated effort will be established with the Gas Department to assure information for charges is forwarded to UBO on a timely basis. UBO will establish a procedure for reporting back to the Gas Department that all charges have been applied. UBO will maintain records for 3 years as required by records retention schedule.

Time to complete – October 31, 2013

B.4 Wastewater and Solid Waste Services

There are insufficient controls in place to ensure utility customers are billed for services received. In our review, we noted customers billed for ‘water only’ services but receiving wastewater and solid waste services. ‘Water only’ accounts are set up by customers needing temporary water services (limited to 60 days) or for construction purposes.

Of the 1,012 ‘water only’ accounts, we judgmentally selected 25 accounts for review. We identified 13 utility customers as receiving wastewater services and 7 utility customers as receiving solid waste services. One of these customers has been billed for ‘water only’ services since the utility account was created in 1998.

This occurred because there are no formal procedures for setting up and monitoring ‘water only’ accounts. Not billing customers for services the City provides results in the city not recouping its cost for services.

Recommendation(s)

We recommend management:

- 1) Ensure that utility customers are billed for wastewater and solid waste services received.
- 2) Develop procedures for establishing and monitoring ‘water only’ accounts.

Management’s Corrective Action Plan with Completion Date(s):

UBO has reviewed all 1,012 “water only” accounts for verification of only receiving water utilities and made the necessary corrections to the accounts that are receiving other utility services. A coordinated effort will be established with the Development Services Department to assure account information on newly developed properties are updated correctly to reflect all utility services applied to each property location are recorded. UBO will establish a procedure for reporting back to the Development Services Department that all utilities have been applied. Develop a procedure for monitoring all “water only accounts” that will be reviewed monthly.

Time to complete - April 1, 2013

B.5 Estimated Meter Reads

There are insufficient controls in place to ensure that UBO is estimating meter reads⁶ in accordance with City policy and Code of Ordinance. In our review, we noted estimated meter reads billed consecutively with no actual reads and with computations inconsistent to the ordinance. According to City policy, an account will be estimated only once before an actual read is obtained. However, of the 2,632 customers with estimated utility bills in our audit scope, 27% were estimated repeatedly with no actual read. We noted several customers with up to 19 estimated consecutive bills.

Additionally, UBO is not calculating estimated meter reads in accordance with the Code of Ordinance. In our review, we noted HTE system parameters inconsistent to the calculation established by ordinance. When utility bills are estimated for an extended period of time or calculated incorrectly, the risk that the customer may be over or under billed increases.

Recommendation(s)

Management should ensure compliance with City policy that utility accounts are estimated only once before an actual read is obtained and that the calculation used is in compliance with the Code of Ordinance.

Management's Corrective Action Plan with Completion Date(s):

UBO will comply with the Code of Ordinances, Section 55-26(d,) on estimating customer accounts and revise policy to match the ordinance. The Code of Ordinances, Sections 55-28(b) and 55-39(d) will be revised to match Section 55-26(d). Additionally, the policy will be revised to allow for 3 months of consecutive estimated reads on any given account to allow staff enough time to determine why an automated read is not being received on an account and scheduling the work to correct the issue.

Time to complete - August 1, 2013

C. Inadequate Administration of Customer Payment Plans

C.1 Polices & Procedures

Payment plan policies and procedures contain some inaccuracies, lack payment terms and periods, and enforceability. The City has a customer payment plan program that allows utility customers to enter into a payment arrangement for past-due balances. In our review of the payment plan program, we noted payment plan policies and procedures contradicting with one another regarding the treatment of customers that default on payment plans, down payments not consistently enforced, and a lack of defined payment terms and periods. In our review, we noted the following:

⁶ A utility bill is estimated when the City is unable to read a meter after reasonable effort due to a condition created by the customer, inclement weather, or any other unforeseen circumstances.

Procedures contradict Policy - According to City policy, customers that default on a payment plan are not eligible to enter into future payment plans with the City. However, according to payment plan procedures, customers that have defaulted on previous payment plans are permitted to enter up to three payment plan agreements.

Payment Plan Down payments not consistently enforced – According to UBO staff, the practice is to require a down payment⁷ from customers to be able to enter into a plan agreement; however, this amount is not always enforced. During our review, we noted customers making down payments less than the minimum amount or not making one at all. Also, there is no documentation on file to support down payment exceptions or if these exceptions were approved by management.

Lack of defined payment periods - There is no established periods by which payment plans need to be paid off. In our review, we noted 39% of customers set up on payment plans exceeding a 12-month period. One utility customer owing \$4,140 was set up to pay monthly installments of \$20 for 208 months (approximately 17 years). Another utility customer owing \$18,194 was set up to pay \$100 for 182 months (approximately 15 years).

Lack of enforcement exists because there are no defined guidelines for administration of payment plans and Customer Service Representatives are given sole discretion to negotiate with the customer to develop agreement terms. Well defined guidelines are an important management control that helps ensure processes are performed consistently and employees who perform them understand what is expected from them.

Recommendation(s)

Management should:

- 1) Ensure that customer payment plan policies and procedures are in agreement regarding the treatment of customers that have defaulted in payment plans.
- 2) Define whether down payments are required, the amounts to be paid, and ensure that it is consistently applied to all utility customers entering into a plan agreement with the City.
- 3) Revise payment plan procedures to address payment terms and payment periods. Any exceptions to the terms should be approved by the Director of Financial Services, or designee.

Management's Corrective Action Plan with Completion Date(s):

The Policy will be updated. A new collection management program is being developed and will address these concerns. The new program is scheduled to be rolled out in April of 2013. The new program is designed to be fair and considerate of customer circumstances and to work with customers in meeting their obligations for utility services. All staff that deal with customers will follow basic rules in dealing with customer delinquency issues. However, the customer is required to notify the City of any issues they have in paying their bills prior to being disconnected for delinquency. Once

⁷ Down payments should be 25% of delinquent balance or at a minimum the current customer balance plus the 1st months installment plus the \$30 disconnect fee, if applicable.

disconnected for delinquency, the customer will no longer be eligible for a payment plan to restore services.

Time to complete - April 1, 2013

C.2 Maintenance of Payment Plan Agreements

The Utility Business Office is not adequately maintaining customer payment plan agreements. Of the 5,025 customer payment plan agreements created during our audit scope, we judgmentally selected 12 for review. In our review, we noted customer payment plan agreements not kept on file, missing management approvals, lacking documentation of medical necessity or other hardship, and not having documentation to show that the plan agreement was reviewed monthly for payment compliance. Specifically, we noted the following:

- 11 did not have the customer payment plan agreements on file. The one agreement that was not file did not have the required management approval.
- 12 did not have documentation on file showing need was due to serious illness or other hardship, as required by policy.
- 12 did not have documentation to show that payment plan was reviewed monthly for payment compliance.

According to City policy, the Utility Business Office Manager may provide for payment agreements for past-due accounts depending on the circumstances (i.e. documented serious illness, other hardships, etc.) of the customer. Payment plan agreements can only be approved by the Utility Business Office Manager or the Director of Financial Services. Lack of documentation exists because there are no defined guidelines for establishing and maintaining payment plan agreements. Failure to maintain clear and well-defined policies and procedures increases the risk that employees will not understand the proper procedures required to perform their assigned responsibilities.

Recommendation(s)

Management should ensure compliance with the payment plan policy or revise policy to require medical necessity or other hardship in granting payment plan agreements.

Management's Corrective Action Plan with Completion Date(s):

The policy will be updated. A new collection management program is being developed and will address these concerns. The new program is scheduled to be rolled out in April of 2013. The new program is designed to be fair and considerate of customer circumstances and to work with customers in meeting their obligations for utility services. All staff that deal with customers will follow basic rules in dealing with customer delinquency issues. However, the customer is required to notify the City of any issues they have in paying their bills prior to being disconnected for delinquency. Once

disconnected for delinquency, the customer will no longer be eligible for a payment plan to restore services.

Time to complete – April 1, 2013

D. Insufficient data in HTE for Customer Extensions

There is insufficient data in the HTE system to determine if ‘extensions to pay’ granted to some utility customers are administered in accordance with City policy. The incomplete data hindered our testing of customer extensions and we were unable to identify a complete and accurate population of customer extensions for the audit scope. In December 2011, the City’s MIS department performed a system change in HTE that purged a customer’s change history. This resulted in HTE having incomplete record of information on utility customers.

Due to the incomplete data, we could not determine whether customers were granted more than one extension every 3 months and whether extensions were properly approved, as required by City policy. Incomplete customer information results in difficulty to identify, track, and monitor customer accounts for compliance with policy.

Recommendation(s)

Management should ensure that accurate and complete record of information is maintained in HTE so customer history can be properly identified, tracked, and monitored for compliance with City policy.

Management’s Corrective Action Plan with Completion Date(s):

The purging of data referenced above was not coordinated with, or approved by, the Finance Department. MIS will be notified of the requirement to coordinate these actions with Finance prior to implementing in the future.

Time to complete - March 1, 2013

E. Insufficient Controls in Processing Refund Checks

There are insufficient internal controls in place for processing utility refund checks due to some customers. For our audit scope, 1,354 checks were issued totaling \$1,106,622. In our review, we noted the following control deficiencies in processing utility refund checks:

- There are no policies or procedures outlining the process for generating utility refunds checks, approvals needed, or documentation to be maintained.
- Unused check stock is not adequately maintained. We noted check stock kept in an unsecured box under the Supervisor’s desk. Although the door to the

Supervisor's office is locked at the end of the day, it is accessible to other employees during business office hours.

- There is no reconciliation performed of the two utility refund check registers. When a refund check is processed in HTE, the refunded check appears on the automated HTE register; however, if a manual check is generated, the process is to manually type the check and show the refund in the manual check register. HTE check registers are available only when checks are being printed. Thereafter, system constraints does not allow for regeneration of the check register. For this reason, HTE check register should be printed, reconciled to the manual register, and maintained on file.
- There is no inventory performed of the unused check stock to account for all checks issued from City Treasurer. Periodic inventory of unused checks will help in the detection of absent checks.
- UBO is not required to sign for the check stock issued from the City Treasurer. Best practice is to have documented acknowledgement when custody of an assets is transferred.
- We judgmentally selected 12 refund checks for review and noted support documentation did not include an explanation or reason for the refund, a breakdown showing how the refunded amount was derived, or that the refund was approved by management. Although UBO staff stated that a signature on check serves as the approval of the refund, management's approval should be obtained prior to check generation.

Good business practices dictate that internal controls be established to ensure management directives are carried out; however, management has not established a set of internal controls over the function of processing utility account refunds. Without effective internal controls, refunds can be issued without sufficient justification and go undetected.

Recommendation(s)

Management should:

- 1) Establish internal controls to ensure that utility refunds are properly processed, approved by management, and adequately substantiated.
- 2) Ensure that unused check stock is kept in a secured location with periodic inventory taken.
- 3) Ascertain procedures for reconciling the automated and manual check registers kept for utility refunds.
- 4) Establish procedures for keeping inventory of unused check stock to account for all checks issued from the City Treasurer.

Management's Corrective Action Plan with Completion Date(s):

Expand on the current procedure to establish proper levels of internal control covering refund checks. The Utility Accounts Manager or Assistant Director will be assigned review and approval duties depending on the employee processing the refund checks. Unused check stock will be kept under lock and key at all times and a check inventory log will be maintained. The new procedure will establish guidelines on maintaining a

single manual register that contains information on all checks issued by the Division. The new procedure will cover inventory of check stock received from the City Treasurer.

Time to complete - April 15, 2013

F. Delinquency and Customer Write-offs

F.1 Delinquent Accounts Not Consistently Disconnected for Non-payment

UBO is not consistently disconnecting utility customers for nonpayment of utility services. Of the 52,130 delinquent accounts in May 1, 2011 through April 30, 2012, we judgmentally selected 30 for review. We noted 6 accounts did not have their services disconnected but instead had received a delinquent notice tag. A delinquent notice tag is a cut-off notice left at the customer's address informing them that their utility services are subject to disconnect due to non-payment. This notice is separate and in addition to the delinquent notices mailed to them. We noted some customers received as much as 15 tags.

According to the Code of Ordinance, bills not paid on or before the bill date are in default and shall have services discontinued for such default, after written notice. UBO staff stated that disconnection is limited to the number of field technicians available to disconnect services. Not disconnecting utility services for nonpayment decreases collectability of the utility account and creates a hardship to the customer by allowing their past due balance to continue to increase.

Recommendation(s)

Management should ensure compliance with the Code of Ordinance and disconnect utility services for customers that are delinquent in payment.

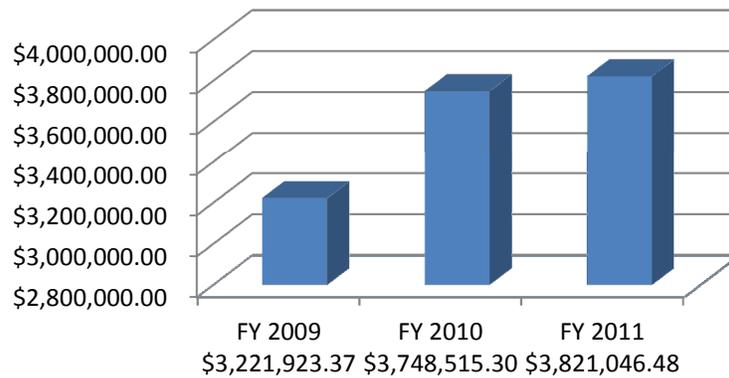
Management's Corrective Action Plan with Completion Date(s):

Over the past 2 years, the Utility Business Office has increased its efforts in regards to disconnecting delinquent accounts. These increased efforts have resulted in a higher collection rate of delinquent accounts and improved performance in this area. The new collection management program will expand on the efforts made to date and provide for a more consistent and proactive approach to delinquency management. Resources and accessibility issues contribute to the division's success of disconnecting services of delinquent customers. A high level of effort has been made to disconnect those customers that have been delinquent in the past and the division will continue its efforts to disconnect all accounts that become delinquent in the future. A new collection management program is being developed and will address these concerns.

Time to complete - April 1, 2013

F.2 Insufficient Oversight of Bad Debt Write-off Process

There is insufficient management oversight over the process to write-off of delinquent utility billing accounts. In our review, we noted write-offs are performed solely by the Utility Accounts Manager with no additional management review or approval. At the end of each fiscal year, the Utility Accounts Manager enters write-off parameters in HTE, executes the process for writing-off delinquent accounts, and generates corresponding year-end reports. For fiscal years 2010 and 2011, write-off amounts increased by 16% and 2%, respectively. The table below shows utility write-off amounts for the last three fiscal years.



Source: HTE system reports.

This condition exists because there are no policies or procedures for the write-off of delinquent utility accounts. Adequate oversight reduces the risk that non-qualifying accounts will be written-off. Without sufficient oversight, management cannot provide assurance that collectability efforts have been exhausted before an account is written-off.

Recommendation(s)

Management should:

- 1) Develop policies and procedures for processing utility billing account write-offs.
- 2) Consider requiring City Management and City Council or board approval prior to writing-off delinquent utility accounts. This practice would be similar to the write-off practice of other Municipalities. Obtaining City Council or board approval keeps the governing body informed of the accounts and amounts considered for write-off, promotes government transparency, and establishes accountability from the Utility Business Office.

Management’s Corrective Action Plan with Completion Date(s):

Expand on the current procedure to establish proper levels of internal control covering the process and guidelines for writing off delinquent balances. The Assistant Director or Director will be assigned review and approval duties for all write – offs in the future.

Although an official policy does not exist currently, the practice has been to carry delinquent accounts that are 120 days old for a period of 12-24 months. At the end of each fiscal year, all delinquent balances that are greater than twelve months old are written off as uncollectible. These accounts are worked by the collection agency before and after write off. Although written off as uncollectible, the collection agency continues to pursue these accounts for the City until all collection efforts have been exhausted. Additionally, the billing system carries these balances on customer accounts indefinitely and these balances are reactivated and attached to new customer accounts that are identified as having left a balance with the City on a previous account.

Time to complete – August 1, 2013

G. Lack of Oversight in Manual Adjustments and Metered Waste Credits

There is a lack of oversight over the management of utility account adjustments. Of 342,248 adjustments made during the audit scope, we judgmentally selected a sample of 66 to review. We noted adjustments non-compliant with city ordinance, lacking appropriate approvals, and missing adequate support to justify the adjustment. Specifically, we noted the following:

- 46 did not have evidence to support approval was obtained from the departments providing the service prior to performing the adjustment. Although UBO collects utility service fees on behalf of the Water, Gas, Solid Waste, and Wastewater departments, an authorized representative from the respective departments should approve adjustments prior to being made since they directly affect the department's operating budget.
- 43 had no support or had inadequate support to justify the adjustment made. Lack of support documentation increases the risk that unauthorized or fabricated adjustments will go undetected.
- 9 were made after the allotted time allowed by city ordinance to make adjustments and had no documentation on file to support management had approved the exception. According to the Code of Ordinance, no corrections shall be made on any city bill unless customer requests before the end of the following month in which reading was done. We noted one adjustment made three years later.
- 2 were for metered waste and/or irrigation credits⁸ and were not performed in accordance with City policy. According to the City's Code of Ordinance, it is the customer's responsibility to provide Utility Billing a monthly meter read. Failure to provide such sewer meter will be taken as agreement to pay the sewer charges on all water metered to the customer.

Additionally, we noted contradicting language within City policy and procedures. According to City policy, UBO will research disputed bill within 5 business days and

⁸ Wastewater bills are based on metered water consumption; however, the City will reduce the metered water consumption on a wastewater bill in a form of credit if a customer, at their own expense, installs a separate meter to measure the volume of water that does not enter the City's sewer system.

adjust, if warranted. However, department procedures states that adjustments will be completed within 30-days from submission. Failure to maintain consistent policies increases the risk that employees will not understand the proper procedures required to perform their assigned responsibilities

Recommendation(s)

Management should: Management should:

- 1) Ensure city policy and procedures are consistent with Code of Ordinance in making adjustments during the allowed time.
- 2) Establish procedures to ensure utility account adjustments are properly approved by the respective department and adequately supported.
- 3) Ensure compliance with the Code of Ordinance and develop policies and procedures for the administration of metered waste and irrigation credits.

Management's Corrective Action Plan with Completion Date(s):

Policy and Procedures relating to adjustments will be revised to align with the Code of Ordinances. Departments will be notified of adjustments but an approval is not required by policy or ordinance. The Utility Business Office is charged with billing, collecting and overall administration of department revenue. Requiring departments to approve adjustments will cause delays and an administrative burden on the Utility Billing Office. As an alternative, the Utility Business Office will set annual maximum allowable adjustments that the departments can have input in developing. Once/if the annual allowable adjustments are reached, departments will be notified for additional input. Policy and procedures relating to administration of metered waste and irrigation credits will be developed to align with the Code of Ordinances.

Time to complete - August 1, 2013

H. Inadequate Administration of Robstown Accounts

UBO is not adequately administering utility accounts that receive wastewater services in select Robstown areas. In 1985, the City entered into an agreement with the City of Robstown to provide wastewater services to designated Robstown locations. These customers receive water from the Nueces County Water Control Improvement District No. 3 (District). In our review, we noted no formal agreement between the City and the District, accounts within City of Corpus Christi city limits receiving water services from the District, customers not charged for wastewater services received, and customers not billed in accordance with the Code of Ordinance.

No formal agreement between City and District – There is no formal agreement between the City and the District to address delinquent wastewater accounts. In our review, we noted customers delinquent in paying their wastewater bill but had not been disconnected. According to City ordinance, water service whose sanitary system account is more than 30 days delinquent shall be disconnected; however, since these accounts do not receive water services from the City and no agreement exists between

the City and the District, water services were not disconnected. Without a formal agreement with the District, the risk increases that customers will not pay for wastewater services received and the City will not recoup its costs.

City addresses with District water services – We noted 12 utility accounts within Corpus Christ city limits receiving water services from the District. We also did not find documentation on file to support City Council approval of this exception. According to the Code of Ordinance, the City would extend water and wastewater service lines to the locations during a two and one-half year period following annexation of a portion of Robstown in 1995.

Customers not charged for wastewater – We noted 5 addresses with wastewater services connected to city sewer lines that did not get billed for wastewater services. According to UBO, it is the customer's responsibility to contact the City to set up wastewater services. If a utility customer does not contact the City and request the service, UBO will not activate their account for billing.

Wastewater bills not in accordance with Ordinance - Robstown residential customers are not billed on water consumption volume in accordance with the Code of Ordinance. Since the District owns the water meters, no water meter read is obtained for residential customers and they are billed on the estimated monthly community average. In the past, the District supplied the City with water meter readings for billing purposes; however, the City opted to bill residential customers based on the community average once the District started to assess a fee for providing the reads. Without obtaining meter reads, the risk increases that customers will be under or over billed.

Recommendation(s)

Management should:

- 1) Identify all Robstown utility accounts and ensure collectability of services being provided.
- 2) Enter into an agreement with the Nueces County Water Control Improvement District to address the disconnection of wastewater customers for non-payment. According to Texas Administrative Code, if an agreement exists between the water and sewer provider or an order from Texas Commission on Environmental Quality (TCEQ), water services can be disconnected due to nonpayment of sewer charges.
- 3) Ensure that utility customers within City of Corpus Christi are receiving water services in accordance with the Code of Ordinance.
- 4) Ascertain procedures for accurate activation of accounts connected to City sewer lines.
- 5) Ensure that residential Robstown addresses are billed in accordance with the Code of Ordinance.

Management's Corrective Action Plan with Completion Date(s):

The City is in the process of identifying all Robstown utility accounts that may be receiving City services. Once completed, these accounts will be billed according to the

ordinance. The City will attempt to enter into an agreement with Nueces County Water Control Improvement District for disconnection of services for delinquent wastewater accounts and pursue any assistance the Texas Commission on Environmental Quality can provide in these efforts. All utility customers located in the northwest area of the City limits will be looked at for proper utility connection and billing. A coordinated effort will be established with the Development Services Department to assure account information on newly developed properties are updated correctly to reflect all utility services applied to each property location are recorded. UBO will establish a procedure for reporting back to the Development Services Department that all utilities have been applied.

Time to complete - October 31, 2013

I. Segregation of Duties and HTE System Access

I.1 Segregation of Duties

Some UBO staff have incompatible duties that should be segregated. During our review, we noted that the Utility Billing Manager, the Utility Billing Supervisor, and the Resolutions Supervisor have the ability to record utility charges, adjust utility fees, and write-off utility billing accounts. The Resolutions Supervisor also performs the processing of utility refund checks to customers.

According to the Committee of Sponsoring Organization of the Treadway Commission's Internal Control Framework⁹, key duties should be adequately divided, or segregated among different staff to reduce the risk of error or inappropriate actions. Assigning one individual full responsibility for all aspects of a process could result in errors, misappropriations, or irregularities being concealed and undetected.

Recommendation(s)

Management should assign the appropriate number of staff to adequately segregate incompatible duties among UBO staff. Employees not involved in recording transactions to utility accounts in HTE should review and authorize adjustments to customer accounts. Employees with access to adjust utility accounts should not have access to generate refunds. Additionally, employees who have the ability to modify utility accounts should not receive customer payments and record payment transactions into the billing system.

Management's Corrective Action Plan with Completion Date(s):

Duties will be segregated among employees to adequately address the concerns. If necessary, the Assistant Director will assume approval duties for adequate segregation.

⁹ The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control Framework provides guidance to executive management and governance entities on the establishment of more effective, efficient, and ethical business operations by providing guidance based on analysis and best practices in the areas of Internal Controls, Fraud, and Enterprise Risk Management.

Time to complete - April 1, 2013

I.2 Shared/Generic User Identity and Password

UBO staff is using a shared/generic user identity (ID) and password to perform adjustments to utility accounts, create cut-off reports, and generate overnight billing updates in HTE. User IDs and passwords are required to identify and authenticate an employee and ensure accountability. In our review, we noted 30 adjustments performed using this shared user ID that we were unable to trace back to the employee that performed the transactions.

According to COBIT 5⁴, system users and their activity should be uniquely identifiable. When passwords are not maintained confidential, accountability is compromised

Recommendation(s)

Management should ensure that employees are not sharing user IDs and passwords. All system users and their activity should be uniquely identifiable and traced to an employee.

Management's Corrective Action Plan with Completion Date(s):

The system currently queues on the user ID for generating daily billing and delinquent files. The system was originally set up in this manner without concern of shared ID usage security. IT Staff will be instructed to research on the possibility of queuing on other fields in the system in order to eliminate the need for shared IDs. If successful, the shared user IDs will be eliminated.

Time to complete - October 31, 2013

I.3 Access not De-activated for Terminated Employees

There is no timely revocation of access privileges for individuals that no longer require access to the HTE system. Of the 251 active HTE system users, we noted four users with access up to two years after their employment terminated with the Department and two temporary employees with access that are no longer with the City. According to CobiT 4.1¹⁰, user access to systems and data should be in line with job requirements.

De-activation of these user profiles did not occur because HTE Systems Administrators were not notified that these individuals were no longer with the City. Although they have started to receive periodic lists of terminated City employees, they are not notified when temporary employees are no longer with the City. Consequently, the untimely removal of unnecessary user access places the system and related data at risk.

⁷ Control Objectives for Information and related Technology (CobIT) is a set of best practices for information technology management created by the Information Systems Audit and Control Association and the IT Governance Institute.

Recommendation(s)

Ensure timely revocation of access privileges for individuals that no longer require access to the HTE system.

Management's Corrective Action Plan with Completion Date(s):

A procedure for periodic validation of HTE access will be developed to address the deactivation of terminated employees. A list will be generated monthly that will require department review and approval for employees to remain activated on the system.

Time to complete - October 31, 2013