

Wakulla County Board of County Commissioners Internal Audit Sewer Billings Audit

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Why This Audit Was Done

To determine the accuracy of rates, fees, and charges for sewer services within Wakulla County. To review the policy and procedures in place for the Revenue Collections Department and make any recommendations based on the review.

Objective, Scope, and Methodology

The Internal Audit Department (IA) conducted an audit of the Revenue Collections Department (Collections) of the Board of County Commissioners (BOCC). The objective of this audit was to determine if sewer related charges were being assessed based on resolutions set by the BOCC and to look at the internal controls in place for the process.

The scope of the audit included the sewer billings for all Wakulla County (County) sewer customers, including those collected by other water companies that remit sewer payments on behalf of customers. For the purpose of this audit, sewer billings include all fees associated with the sewer system, including monthly rates, deposits, connections, and other fees set by resolution by the BOCC.

To accomplish the objectives of this audit IA interviewed Collections and other BOCC staff. Walkthroughs were performed of the billing process. Ordinances, resolutions, water company agreements, and Collections policy and procedures were reviewed. Individual customer accounts were examined and tested within the billing software, American Business Software (ABS), and from reports from the other water companies.

Background

The County provides sewer services to approximately 4,200 households that have water services through Talquin Electric Cooperative (TEC), Panacea Area Water Systems (PAWS), and the City of Sopchoppy (Sopchoppy). The County collects payments directly from the customers that have TEC water services. The County has agreements with PAWS and Sopchoppy to collect sewer payments from their water customers and to remit these payments each month. In the last fiscal year, 2021-2022, sewer fees collected from these three water service areas totaled approximately \$2.8 million in revenue. This revenue is essential to keep the sewer services maintained.

The sewer rates, fees, and charges have been set by BOCC resolutions. The resolutions used for this audit were 2000-05, 2012-23, 2017-54, and 2021-78. See **Table 1** below for

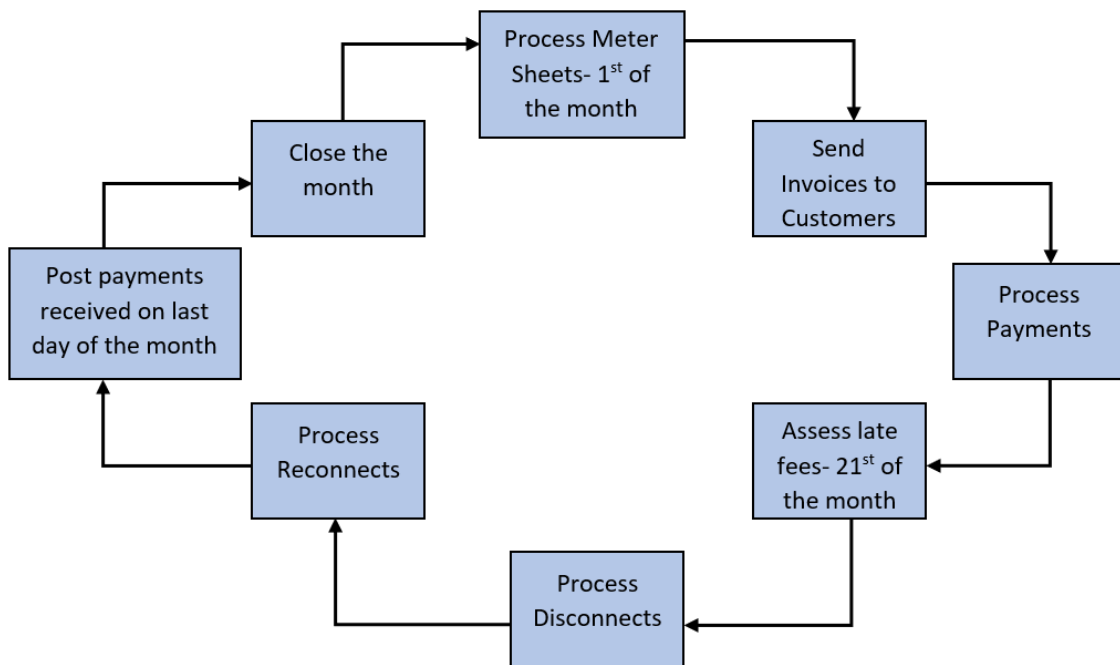
a breakdown of these resolutions. Chapter 31.037 through 31.050 of the Code of Ordinances pertains to the sewer rates, fees, and charges.

Table 1: Sewer Rates by Resolutions

Resolution	Effective Date	Rate- Residential, first 2,000 gallons plus each additional 1,000 gallons	Rate- Commercial I, base plus each 1,000 gallons	Rate- Commercial II, base plus each 1,000 gallons	Deposit- Residential	Deposit- Commercial
2000-05	03/06/00	\$15.00 + \$2.00	\$21.00 + \$2.50	\$50.00 + \$3.50	\$50.00	\$200.00
2012-23	10/01/12	\$27.73 + \$4.16	\$41.60 + \$4.16	\$83.19 + \$4.16	\$50.00	\$200.00
2017-54	10/16/17	2012-23 increased based on CPI	2012-23 increased based on CPI	2012-23 increased based on CPI	\$100.00	\$200.00
2021-78	04/01/22	\$38.09 + \$5.72	\$57.13 + \$5.72	\$114.23 + \$5.72	\$110.00	\$370.00

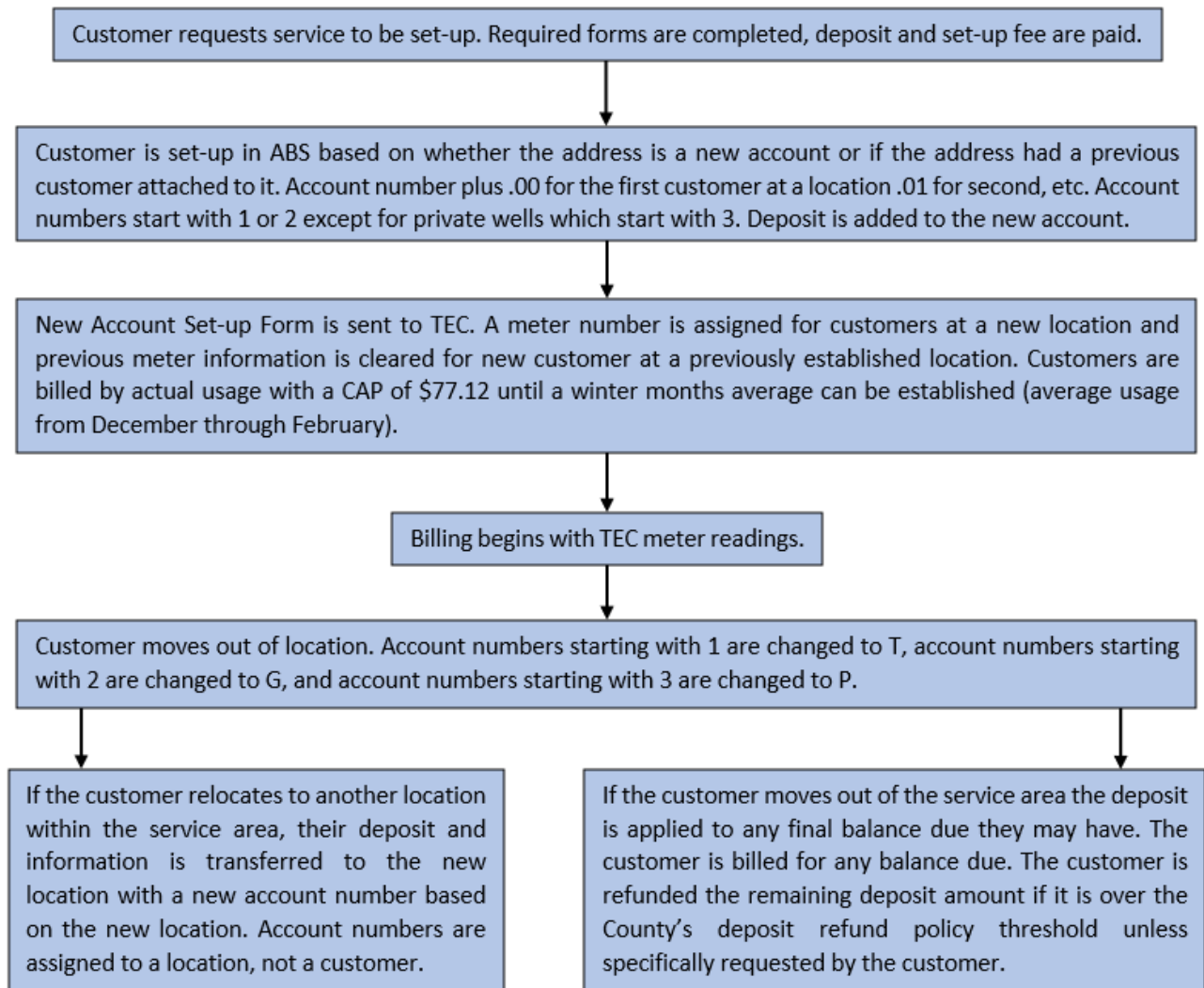
The flowchart below represents a high-level overview of the monthly sewer billing process for Collections. Each of these steps was performed during a walkthrough with the staff responsible for the task.

Flowchart 1: Monthly Sewer Billing Process



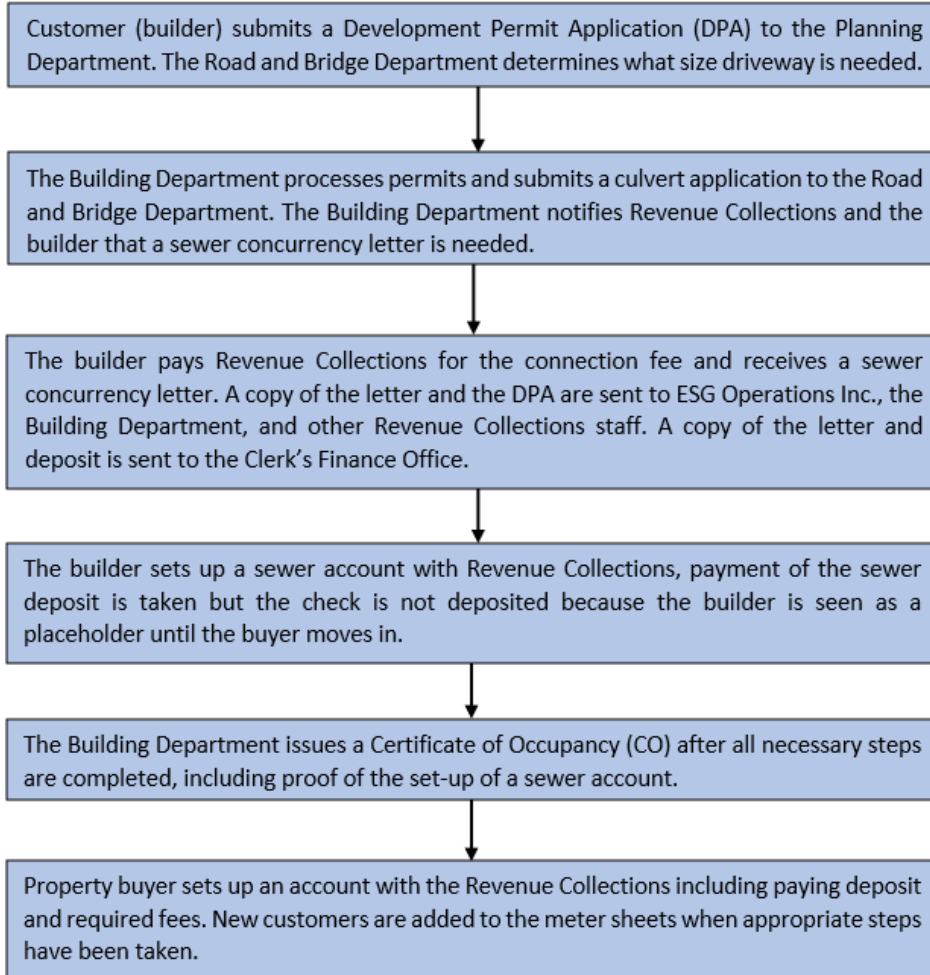
The lifecycle of the customer is represented in the flowchart below.

Flowchart 2: Customer Lifecycle Process



In the case of new construction, the builder begins the process with a connection fee to connect the new construction to the sewer system. The flowchart below shows the sewer concurrency process.

Flowchart 3: Sewer Concurrency Process



Key Statistics

Table 2: Customer Breakdown

Number	Description
2819	Number of customers listed in ABS*
1171	Number of inactive customers listed in ABS*
1648	Number of active customers listed in ABS*
92	Number of customers listed in ABS* as active but are no longer active
96	Number of customers listed in ABS* without a deposit on file
928	Number of active PAWS customers per PAWS reports
152	Number of PAWS customers without a deposit on file
1717	Number of active Sopchoppy customers per Sopchoppy reports
339	Number of Sopchoppy customers without a deposit on file

*TEC water customers

Key Observations

1. Customer Deposits

Customer deposit amounts are determined by resolutions approved by the BOCC. The details of these resolutions can be found in **Table 1**. With the exception of two deposits posted on 4/7/22 both of which were \$10 short each, deposit amounts collected by Collections were in compliance with the deposit amounts set by the resolutions. As shown in **Table 2**, there were 96 active customers without deposits on file for Collections, the TEC water service area. Of these 87 were older customers that came to the County as established customers from another entity and deposits were not requested when they established their County sewer account. The policy has been that if one of these customers moved locations or has their services disconnected for non-payment, a deposit will be required to re-establish service. Three of these customers had accounts set-up in ABS but service was not started immediately, these accounts had some usage starting in November 2022 but a deposit has not been posted to the account yet. The remaining six had various reasons a deposit was not collected in the notes of the account.

Sopchoppy had 11 deposits that did not match the resolution amount, totaling a \$320 shortage on customer deposits collected. Of those 11, eight were just after a new resolution passed. There were 339 customers without deposits for Sopchoppy. 236 of these deposits, like the County, stem from older accounts that have been grandfathered to not require deposits. These accounts were established prior to Sopchoppy taking over the billing. Unlike the County, Sopchoppy has a policy that if a customer has established a history of good payments, they will not require a deposit, 44 accounts fall into this category. Additionally, 43 customers from the Sewer Expansion Phase II did not have a deposit paid. The rest are County accounts (9) and other miscellaneous reasons.

PAWS had 62 deposits that were not the correct amount after the most recent resolution took effect on 4/1/2022. This resulted in a shortage of \$1,420 on customer deposits collected. The issue was brought to their attention during the audit and the deposit amounts currently being collected are now in compliance with the resolution. There were 152 active customers without deposits. PAWS maintained a policy similar to the County in reference to older accounts previously processed by another entity and they will collect these deposits if the customer moves or is disconnected for lack of payment, this represents 139 of the 152. 12 of the remaining customers were government entities and PAWS does not collect a deposit from them, mostly County offices. One customer had three accounts with two deposits.

2. Rates/Winter Average and Actual

Customer sewer usage rates are also set by resolution as outlined in **Table 1**. Customers are billed based on water usage shown on their meters. A winter months average, based on an average of the water usage during the months of December, January, and February, is used to determine the sewer billings for each individual customer. New customers are charged by actual usage at a cap of \$77.12. The cap is calculated based on 150% of the average yearly water usage for all residential sewer

customers within the water service area. It is used until a winter months average can be determined. Customers also have the option to be billed by actual usage but a cap is not given in this situation.

To test that the rates were being properly charged 155 sample were selected at random. The rates were recalculated based on the information from the meter sheet reports and the customer accounts. All customers on winter months average were invoiced correctly. There were 3 customers with issues on the cap adjustment between May and August. Another customer was under charged based on a calculation in July. These occurrences took place prior to the hiring of new staff for Collections and the situation appears to be resolved now.

A test was also done with Sopchoppy customers. A sample of 20 was selected for a detailed look into the customer's account. Two samples did not match the billing amount expected from a recalculation of the data, Sopchoppy was contacted in reference to these accounts and corrections were made.

Based on the errors found in those samples, testing was expanded. The winter average was recalculated using the reports submitted from Sopchoppy for the usage in December 2021, January 2022, and February 2022. There were 1,151 accounts recalculated. When the recalculations were compared to the sewer bills for October 2022, 109 accounts did not match the expectation.

50 of these accounts had Sopchoppy's cap of \$80.61 misapplied to their accounts. Due to the cap being applied to customers that had a winter average established they were undercharged \$1,485.83 for the month of October. 41 of these accounts had a meter exchanged during the winter months and the winter average was calculated by dividing the usage by four instead of three. This resulted in an undercharge of \$267.69 for the month of October.

Three of these accounts were not billed. The accounts appear to not have been billed for any usage since establishing a sewer account. The total amount not billed for October was \$160.79 for these accounts. The accounts were established between September 2020 and June 2021. Using the minimum bill amount they could have been charged during this timeframe, a minimum of \$2,020 in revenue was not billed.

The remaining 15 accounts were miscellaneous reasons such as adjustments due to reported leaks and other overrides. A review of the commercial accounts, which are based on actual usage, showed all but one was billed accurately. The one that was not billed was a construction account.

All PAWS customers were reviewed for accurate billing due to an issue found during the audit. The rates charged from April 2022 through October 2022 had not been updated to match the new resolution that took effect in April 2022. After PAWS was contacted in the middle of October, the rates charged were corrected for the November billings. PAWS sets the cap limit at \$72.41 for customers in the PAWS service area.

The amount not billed to customers in October 2022 was \$6,379.52. The billings in

October 2022 were \$42,458.34 and in November increased to \$49,347.25. There is an estimated \$44,677 in lost revenue between April 2022 and October 2022. Due to staff turnover in Collections, it is unclear how this occurred but it has been rectified moving forward.

Table 3: Loss on PAWS Revenue Estimate

Month (Year 2022)	Actual Difference in Billed Amount	Estimated Difference in Billed Amount
APRIL		\$6,355
MAY		6,375
JUNE		6,384
JULY		6,384
AUGUST		6,395
SEPTEMBER		6,404
OCTOBER	\$6,380	
	\$6,380	\$38,297
	Total	\$44,677

3. Set-up Fee

Resolution 2021-78 created an account set-up fee of \$25 for all new accounts. Unlike the deposit required, this is a non-refundable fee. A report run from ABS for the billing code of Account Set-up Fees showed that after 4/1/22, 41 out of 176 new customers were charged the fee. Collections was notified during the audit and the fees are being collected. This is \$3,375 in revenue that is being collected.

4. Active/Inactive

The report on all customers ran on 11/15/2022 from ABS showed 1,648 active customers, referenced in **Table 2**. Of these 92 customers should have been moved to inactive. 86 of these customers already had their account numbers changed to begin with a “G”, “P”, or “T”. The deposits on these accounts had been transferred to cover part of their final bill or refunded. Some accounts were written off.

5. Daily Deposit process

Shown on **Flowchart 1** as “Process Payments,” this step encompasses customer payments received via check and credit card during the billing cycle. Credit card payments are processed through a third-party and the payments go directly into the ABS system and post to customer accounts. Check payments can come in through the mail (at Collections or at the PO Box), in-person, or in the drop-box in the Collections parking lot. Once per day an employee checks the mailboxes and drop-box for payments, this person deposits these checks using the remote deposit capture machine located on their desk and enters the information into ABS. Another employee applies the credits to the customer’s accounts.

Collections does not take cash payments. There is still risk involved even though cash is not taken because the same person is opening the mail and making the deposit. Other employees also have access to the keys for opening the mailboxes and drop-

box. Complete segregation of duties is not possible when there is a small staff size. There are some compensating controls in place such as camera's monitoring the entire building and statements mailed to customers showing outstanding balances and last payment received. Additionally, because there is a short turnaround time in the billing cycle before the customer would have services shut-off, the risk is low. Reports are run from ABS each month, including adjustments made to customer accounts. These reports are submitted to the Wakulla Clerk of the Court Finance Department for reconciliation with the month's accounts receivable activity and the bank statement.

6. Deposit Refunds

As shown in **Flowchart 2**, when a customer moves out of the service area their deposit is applied to any balance due on their account. If a customer has funds remaining after the deposit is applied, they receive a refund. The policy had been if the refund was under five dollars it was not refunded. Through several staff changes this policy had not been followed. During the audit this policy was updated to align with current Florida Statute 717.117(1)(h) to reflect if a remaining deposit is less than \$10 it is not refunded unless the customer requests it. This new policy is related to unclaimed funds that have to be submitted to the State of Florida each year and reduces the amount of processing of checks that many customers do not deposit. Any amount not refunded is transferred to miscellaneous revenue.

7. Mailing Invoices

Customer invoices are mailed out each month as well as emailed to customers with an email address on file. All employees in the Collections Department work together to get the invoices in the mail quickly after the prior month is closed. Several manual adjustments are required during invoice processing. One for the monthly cap for those who have not had a winter average established yet and another to check the multiplier for the meter usage to get to the correct number. There is a manual scan for an overall reasonableness as well, ensuring a meter read was not picked up incorrectly and causing an unusually large bill for example. Though the same staff that handles the daily deposit is involved in the mailing of invoices, the fact that the invoices are also emailed reduces the risk from the lack of segregation of duties.

8. Sewer Connection Fees

As described in **Flowchart 3**, new construction is required to pay for connection to the County's sewer system. This process involves multiple County departments and one outside contractor, ESG Operations Inc. Collections is responsible for taking the payment and issuing the concurrency letter as well as setting up the sewer account. Because a sewer account must be set-up for a Certificate of Occupancy (CO) to be issued by the Building Department, contractors/builders give a check payment to Collections for the required deposit. This check is not cashed because the contractor/builder account is considered a place holder by Collections. Only when the home buyer purchases the property is a deposit taken and an official sewer account set-up. This opens up several issues. Checks should not be held under proper cash

handling procedures. Additionally, when the CO is issued, water and sewer services are functional at the property. This can cause a property to slip through the cracks. This can delay the County having an actual account set-up at the property and use by the builder and ultimate homeowner without payment or deposit.

9. User Access in ABS

The user access in ABS appears to be properly restricted to one administrator in Collections. There is an administrative user that is with ABS, but other users in the system have restrictions set to allow them to do their responsibilities within the system.

Recommendations and Management Responses to Audit Recommendations

Recommendation #1:

Creating a formal policy and procedure manual for the department would be an important step towards ensuring any staff turnover does not cause Collections to have similar issues in the future. The following are recommendations for items to include in the policy and procedure manual, in addition to daily and monthly routines.

1. It is recommended a check list for customer move outs and move ins be a part of these procedures. There is currently a list with steps for this purpose. Adding items such as changing a customer to inactive, checking that a set-up fee is paid, and that refunds are only automatically sent if they are \$10 or more.
 - a. A clean-up of currently active accounts that are truly inactive should be completed.
2. Much of the monthly process is manual, which has potential for human error. It is recommended that as many steps as possible incorporate the use of tools such as a spreadsheet to sort through data to find outliers for cap adjustments, multipliers, and reasonableness checks. This should be included as part of the procedures.
3. Creating a written policy for the policy on customers that have not been required to put a deposit on their accounts is also something that should be included.

Management response & action plan:

1. Staff will work to create a comprehensive policy and procedure manual as a beneficial tool for the department.
2. Staff has updated the procedure check list for move outs and move ins. Refunds are only being processed if they are \$10.00 or more, although this process does not happen automatically. It should be noted that the current sewer billing software presents some challenges relating to automation of processes and Collections staff have been investigating alternative software systems.
3. Staff have gone through all accounts and verified that all inactive accounts are properly marked as such.

4. All portions of billing that used manual checking for cap adjustments and multipliers are employing a spreadsheet export to eliminate some potential for human error.
 5. There is a guideline in place for accounts that were not required to put a deposit on the account. Should an account with no deposit be disconnected for non-payment, then a deposit in lieu of reconnect fee will be collected. (Only if they have not paid the \$110 within the last year).
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Recommendation #2:

Because the small office does not allow for complete segregation of duty, mitigating controls need to be in place. One way this could be achieved with the existing resources is to encourage customers that do not have an email account with Collections to provide this information. Currently 1,295 active customers have an email account in their profile. Notes can be added to invoices through ABS to encourage email addition and that invoices can be sent electronically. It can save money and time if invoices do not have to be mailed. It can deter fraud if customers get automatic invoices each month. Autopayments would reduce the number of payments that come through the office and add another mitigating control to the lack of segregation of duties. ABS has capabilities for automatic payments but there may be other software alternatives that would work better. It is recommended that if these are implemented a pilot program be used with a select number of customers.

Management response & action plan:

1. Staff always encourage new and current customers to provide email addresses and have monthly invoices sent electronically.
 2. Staff are taking this recommendation and the automatic payment capability into consideration when researching potential alternative sewer billing software.
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Recommendation #3:

The current process for sewer concurrency leaves room for sewer usage to go uncollected. The practice of holding checks from contractors/builders is not consistent with proper cash management and goes against County policy. County policy is that deposits should be completed daily, but no less than weekly. It is recommended that new procedures be put in place for setting up sewer accounts prior to the issuance of the CO for contractors/builders to prevent this usage going unnoticed. If deposits are taken, they should be deposited as all other deposits, when a homeowner purchases the property, the deposit can be refunded and the account transitioned to the owner like it is done with any other move in/move out. Another option is for different policies to be written for contractor/builder accounts but the policy should ensure the sewer

usage is charged when water/sewer usage begins, which may occur prior to the sale of the property. This should help prevent lag times between home sales and billing.

Management response & action plan:

Staff no longer hold the \$110.00 account deposit checks from contractors and builders. The checks are all deposited and posted to accounts upon receipt. Currently, contractors and builders are being billed for sewer once the water meter has been installed and the account is showing water usage.

Recommendation #4:

In reference to the sewer collections in the water areas not collected by the County, it is recommended:

1. The County work with Sopchoppy on the sewer customers in their water area in not compliance with the County's sewer rate ordinance. This applies to the deposits that have not been collected, the use of a cap on customers with a winter average, and new customers that receive sewer services without being billed. Additional oversight to the billing process may be necessary to ensure issues do not continue moving forward.
2. The County should make a determination on the requirements of annual audits of PAWS and Sopchoppy. Per the agreements between the County and these water providers, PAWS and Sopchoppy are required to submit an audit performed by an independent certified public accountant annually. The report is to include a breakdown of revenue billed and other details related to customer accounts. Annual audit reports have not been provided to the County.
3. A process should be established and included in the policies to ensure all parties are aware when a new ordinance or resolution pertaining to sewer rates is passed. Additionally, to confirm compliance with new ordinances or resolutions in the first billing cycle after a rate change goes into effect and each time the rate changes.

Management response & action plan:

Staff will continue to work with the Internal Auditor on addressing the concerns regarding sewer that is billed by City of Sopchoppy (COS) and Panacea Area Water System (PAWS). Staff will continue to communicate information pertaining to rates, fees and policy changes to COS and PAWS. Annual rate increases and fee changes are also posted on mywakulla.com under the Public Works Department.

End of Report