



City of  
Corpus  
Christi

**AU14-F02  
Financial Services Department  
Utilities Business Office Audit  
Follow-up Report**

**City Auditor's Office  
Arlena Sones, CPA, CIA, CGAP  
City Auditor**

**September 3, 2015**

# Executive Summary

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As part of our annual Audit Plan, we conducted a follow-up of the Financial Services Department, Utilities Business Office audit report dated February 21, 2013. The original report contained 36 recommendations which were all accepted by management. Management response indicated that all recommendations would be implemented by October 31, 2013

The objective of this follow-up audit is to determine if prior audit recommendations were successfully implemented and if they are working as intended. The audit scope was November 1, 2013 through March 31, 2015

We concluded that one of 32 tested recommendations had been implemented. Two recommendations have a pending status while City staff continue to work with management from Nueces County Water Control Improvement District No. 3. Eight areas tested were not implemented, and we could not test 21 recommendations because management had not updated its policies or procedures. A summary of the recommendation status is shown in the chart below.

Recommendation Status	
Implemented	1
Pending	2
Not implemented	8
Scope limitation - no policy update	21
<b>Recommendations Tested</b>	<b>32</b>
Scope limitation – no data	2
Chose not to test	2
<b>Total Recommendations</b>	<b>36</b>

The prior recommendations made to management and the status as of the end of fieldwork can be seen in Appendix A.

Management of Financial Services Department disagrees with this report. Management states that recommendations were implemented in April 2015; however, our documentation suggests otherwise. See management's response in Appendix B.

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## Utilities Business Office Audit Follow-up Report

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### Background

The City Auditor's Office issued a report on the audit of Financial Services Department, Utilities Business Office (UBO) dated February 21, 2013. The objective of the original audit was 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.
- Determine if controls are in place for the adjustments made to customer accounts.

This follow-up audit will provide a determination of management's implementation of the recommendations and corrective action plans detailed in the original report.

UBO is a division within Financial Services operating under the management of the Collections Manager. UBO is comprised of four sections: utility billing, bill dispute resolution, street maintenance fees, and code enforcement. As of April 2015, UBO was staffed by 18 City employees and 14 temporary employees.

UBO's FY 2014 operating budget totaled approximately \$5.25 million and includes \$2.2 million contributed by the Water Fund (4010). Per UBO, in the same year, they served approximately 89,530 utility customers each month and billed approximately \$412 million on behalf of the various utility departments. Total FY 2014 utility billings by service type is shown in the table below.

FY 2014 Total Utility Billings	
Utility Service	Amount Billed
Water	\$ 181,300,267
Gas	102,142,830
Wastewater	91,876,261
Solid Waste	28,060,271
Street Maintenance Fee	8,562,497
<b>Total</b>	<b>\$ 411,942,126</b>
Source: Utility Business Office	

Department personnel utilize the HTE system to manage customer utility accounts; however, the HTE system is scheduled to be phased out December 2015 and replaced with an Infor utility module.

## **Statutory Authority and Municipal Guidelines**

Texas Administrative Code

City Code of Ordinances, Section 55

- Article II Rules and regulation of the utility business office
- Article XX – Street Preventative Maintenance Program

Department Policy and Procedures

## **Audit Objective, Scope and Methodology**

The objective of this follow-up audit is to determine the status of the recommendations detailed in the audit report dated February 21, 2013.

The follow-up audit was limited to a review of the findings and recommendations detailed in original report. Management agreed to correct all issues by October 31, 2013; therefore, we used an audit scope which included UBO operations and transactions from November 1, 2013 through March 31, 2015.

We initiated this audit in September 2014 and concluded it in August 2015.

To accomplish our audit objective, we reviewed updated City ordinances, conducted interviews with management and staff of Financial Services Department. We requested updated policy and procedures from UBO, and requested the assistance of the MIS Department in obtaining data files of customer billing activity.

In September 2014, UBO could not provide the requested documentation. Per management, this was due to the implementation of the new Infor financial system, staff turnover, and the onset of the external audit. Because of this scope limitation we elected to postpone the audit until January 2015 to accommodate the department.

We attempted to resume the audit in January 2015. Again, the requested documentation was not provided.

In April 2015 management confirmed that policies and procedures had not been updated; therefore, our testwork was severely limited.

We designed testwork for deposits, application fees, delinquent accounts and estimated bills; however, we could not obtain the needed data files from the MIS Department because it had begun the implementation of the new Infor utility module for UBO.

We were able to obtain a data file of 429 customers subject to connection fees. Using a random number generator we selected a random sample of ten customers to verify if connection fees are charged in accordance with City ordinance (three of ten were not assessed the fee).

We reviewed the record retention of manually applied charges for: solid waste collection; large volume gas consumption and gas fueled vehicles; and wastewater pre-treatment. UBO had the supporting documentation for all (15) solid waste manually applied charges during the scope of the audit; however, they could not provide supporting documentation for three of 51 gas charges and five of 25 wastewater pretreatment charges.

We inspected the physical security and inventory control of check stock as of July 15, 2015. Lastly, we reviewed current segregation of duties amongst UBO staff as of August 3, 2015.

Due to pending negotiations between the City and Nueces County Water Control Improvement District No. 3 over Robstown area utility customers, we were unable to review inter-local agreements or determine if the City is providing utility services in accordance with City ordinance.

We relied on computer-processed data in HTE to perform this audit. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included testwork of connection fees and user access as of July 2015. We do not believe that the limited testing of general and application controls had an effect on the results of our audit.

We elected to not test the recommendation related to HTE system application controls for estimating utility bill calculations and maintaining customer historical data because the system is schedule to be phased out in December 2015.

We did not test the street maintenance fee because it was not included in the scope of the original audit.

### **Management and Auditor Responsibility**

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.

This audit report provides independent, objective analysis, 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.

We conducted the follow-up audit in accordance with the Institute of Internal Auditors' (IIA) Professional Practices Framework (Practice Advisory 2500 A1-1) and other procedures that we considered necessary. IIA standards require that we establish a follow-up process to monitor and ensure that management has

effectively implemented actions or that senior management has accepted the risk of not taking actions.

**Audit Conclusion**

The Financial Services Department did not implement 8 of 32 auditor recommendations (or management action plans as indicated in the initial audit). The department has implemented one of 32 recommendations and two are pending assistance from other City departments. A summary of the recommendation status is presented in the table below.

Recommendation Status	
Implemented	1
Pending completion	2
Not implemented	8
Scope limitation; no policy update	21
<b>Recommendations Reviewed</b>	<b>32</b>
Scope limitation; no data	2
Chose not to test	2
<b>Total Recommendations</b>	<b>36</b>

The Financial Services Department did not:

- update or create policy and procedures
- maintain utility records in accordance with City record retention control schedules in two of three areas
- obtain written approval for write-offs of delinquent utility accounts
- segregate incompatible duties
- prohibit staff from sharing user IDs and passwords
- terminate system user access for former employees
- store refund check stock in a secure location or periodically inventory it

Two recommendations related to Robstown area customers have a pending status because City staff are still working on an agreement with Nueces County Water Control Improvement District No. 3.

A complete list of the prior recommendations and the status (at the end of our fieldwork) can be seen in Appendix A.

The original audit report can be found on the [City Auditor’s website](#).

### **Evaluation of Management Responses**

In its response to the audit report, management states that new practices were in place in April 2015; however, this is not the case. As we state in the Methodology section of this report, we tested the security of check stock on July 15, 2013, and found that the recommendation had not been fully implemented.

Further, on September 2, 2015 we requested documentation for the monthly write-off of uncollectable utility accounts that would have been produced as part of the new procedure. Per management, this was implemented in April; however, no documentation was provided.

Finally, management inaccurately states that the testwork conducted by our office shows that recommendations were implemented. On the contrary, our testwork shows that the recommendations were not implemented.

Management responses can be seen in Appendix B.

### **Staff Acknowledgment**

Kimberly Houston, Auditor-in-Charge  
Jacey Reeves, Auditor  
Sarah Arroyo, Assistant Auditor

## Appendix A – Prior Recommendations and Status

Issue No.	Recommendation	Status
<b>A. Fees not Consistently Assessed</b>		
A.1 Customer Service Deposits		
1	Management should ensure that customer service deposits are assessed in accordance with City ordinance and policy. (Management action plan calls for update to policy.)	<i>Scope limitation; no policy update; no data.</i>
A.2 Application and Connection Fees		
1	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.	<i>Not implemented</i>
<b>B. Insufficient Internal Control in Manual Charges and Estimating Meter Reads</b>		
B.1 Wastewater Pre-treatment Fees		
1	Management should establish controls to ensure BOD and TSS charges are accurately billed and timely posted to customer accounts.	<i>Scope limitation; no policy update.</i>
2	Management should ensure billing records are adequately maintained and are compliant with the records control schedule.	<i>Not implemented</i>
B.2 Solid Waste Cart Fees		
1	Management should establish internal controls to ensure additional garbage cart and cart delivery fees are accurately charged and timely posted to customer accounts.	<i>Scope limitation; no policy update.</i>
2	Management should ensure billing records are adequately maintained and are compliant with the records control schedule.	<i>Implemented</i>
B.3 Large Volume Natural Gas and CNG		
1	Management should establish internal controls to ensure large volume natural gas and CNG consumers are charged accurately and timely posted to their accounts.	<i>Scope limitation; no policy update.</i>
2	Management should ensure billing records are adequately maintained and compliant with records control schedule.	<i>Not implemented</i>

Issue No.	Recommendation	Status
<b>B.4 Wastewater and Solid Waste Services</b>		
1	Management should ensure that utility customers are billed for wastewater and solid waste services received.	<i>Scope limitation; no policy update.</i>
2	Management should develop procedures for establishing and monitoring 'water only' accounts.	<i>Scope limitation; no policy update.</i>
<b>B.5 Estimated Meter Reads</b>		
1	Management should ensure compliance with City policy that utility accounts are estimated only once before an actual read is obtained.	<i>Scope limitation; no data file.</i>
2	Management should ensure that the calculation used is in compliance with the Code of Ordinance.	<i>Chose not to test</i>
<b>C. Inadequate Administration of Customer Payment Plans</b>		
<b>C.1 Policies &amp; Procedures</b>		
1	Management should ensure that customer payment plan policies and procedures are in agreement regarding the treatment of customers that have defaulted in payment plans.	<i>Scope limitation; no policy update.</i>
2	Management should 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.	<i>Scope limitation; no policy update.</i>
3	Management should revise payment plan procedures to address payment terms and payment periods.	<i>Scope limitation; no policy update.</i>
4	Any exceptions to the terms should be approved by the Director of Financial Services, or designee.	<i>Scope limitation; no policy update.</i>
<b>C.2 Maintenance of Payment Plan Agreements</b>		
1	Management should ensure compliance with the payment plan policy or revise policy to require medical necessity or other hardship in granting payment plan agreements.	<i>Scope limitation; no policy update.</i>
<b>D. Insufficient data in HTE for Customer Extensions</b>		
1	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.	<i>Chose not to test</i>
<b>E. Insufficient Controls in Processing Refund Checks?</b>		
1	Management should establish internal controls to ensure that utility refunds are properly processed, approved by management, and adequately substantiated.	<i>Scope limitation; no policy update.</i>
2	Management should ensure that unused check stock is kept in a secured location with periodic inventory taken.	<i>Not implemented</i>
3	Management should ascertain procedures for reconciling the automated and manual check registers kept for utility refunds.	<i>Scope limitation; no policy update.</i>

Issue No.	Recommendation	Status
4	Management should establish procedures for keeping inventory of unused check stock to account for all checks issued from the City Treasurer.	<i>Scope limitation; no policy update.</i>
<b>F. Delinquency and Customer Write-offs</b>		
F.1 Delinquent Accounts Not Consistently Disconnected for Non-payment		
1	Management should ensure compliance with the Code of Ordinance and disconnect utility services for customers that are delinquent in payment.	<i>Scope limitation; no data file.</i>
F.2 Insufficient Oversight of Bad Debt Write-off Process		
1	Management should develop policies and procedures for processing utility billing account write-offs.	<i>Scope limitation; no policy update.</i>
2	Management should 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.	<i>Not implemented</i>
<b>G. Lack of Oversight in Manual Adjustments and Metered Waste Credits</b>		
1	Management should ensure city policy and procedures are consistent with Code of Ordinance in making adjustments during the allowed time.	<i>Scope limitation; no policy update.</i>
2	Management should establish procedures to ensure utility account adjustments are properly approved by the respective department and adequately supported.	<i>Scope limitation; no policy update.</i>
3	Management should ensure compliance with the Code of Ordinance and develop policies and procedures for the administration of metered waste and irrigation credits.	<i>Scope limitation; no policy update.</i>
<b>H. Inadequate Administration of Robstown Accounts</b>		
1	Management should identify all Robstown utility accounts and ensure collectability of services being provided.	<i>Scope limitation; no policy update.</i>
2	Management should 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.	<i>Pending</i>

Issue No.	Recommendation	Status
3	Management should ensure that utility customers within City of Corpus Christi are receiving water services in accordance with the Code of Ordinance.	<i>Pending</i>
4	Management should ascertain procedures for accurate activation of accounts connected to City sewer lines.	<i>Scope limitation; no policy update.</i>
5	Management should ensure that residential Robstown addresses are billed in accordance with the Code of Ordinance.	<i>Scope limitation; no policy update.</i>
<b>I. Segregation of Duties and HTE System Access</b>		
I.1 Segregation of Duties		
1	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.	<i>Not implemented</i>
I.2 Shared/Generic User Identity and Password		
1	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.	<i>Not implemented</i>
I.3 Access not Deactivated for Terminated Employees		
1	Management should ensure timely revocation of access privileges for individuals that no longer require access to the HTE system.	<i>Not implemented</i>
<b>Status Legend</b>		
Implemented	Corrective action plan was implemented.	
<i>Scope limitation; no policy update.</i>	Management did not implement updates to policy/procedure; therefore, we could not perform testwork.	
<i>Not implemented</i>	Testwork was conducted. Corrective action plan was not implemented.	
<i>Pending</i>	City staff awaiting action from Water District	
<i>Scope limitation; no data file.</i>	Unable to obtain data file from MIS; therefore, we could not perform testwork.	
<i>Chose not to test</i>	The City's utility billing system, HTE, is scheduled to be phased out October 2015; therefore, testing was not performed.	

## Appendix B - Management Response



City of  
Corpus  
Christi

### FINANCIAL SERVICES

PO Box 9257  
Corpus Christi  
Texas 78469-9257  
Phone 361-826-3600  
Fax 361-826-3601  
www.cctexas.com

September 1, 2015

Arlena Sones, CPA, CIA, CGAP  
City Auditor  
Corpus Christi, Texas

Re: AU14-F02 Financial Services Department, Utilities Business Office  
Follow-Up Audit Report

The Financial Services Department has reviewed the audit report. As there are no recommendations for management, no responses are required.

Agree

Do Not Agree with the Audit Conclusion stating that "the Financial Services Department did not implement 29 of 32 auditor recommendations. The department has implemented one of 32 recommendations, and two are pending assistance from other departments."

As of April, 2015 Financial Services Staff implemented 27 of 32 auditor recommendations, but did not complete documentation supporting the implemented recommendations until August, 2015. As of August 10, 2015, all policies had been updated and procedures documented.

Management acknowledges that Financial Services Staff did not complete the documentation of policies and procedures in a timely fashion and as a result it was difficult for the City Auditor to test non-documented processes. The tests that were conducted did show that recommendations were implemented but that there is still room for improvement. While management is deeply disappointed with the delay in providing the required documentation in a timely fashion, it is important to take into consideration the following extenuating circumstances:

- During the time of the follow-up audit (September, 2014 to August, 2015) Financial Services was heavily involved in the implementation of a new financial software system which began in May 2013 and concluded on October 1, 2014.
- The City of Corpus Christi changed its fiscal year-end in 2014 from July 31<sup>st</sup> to September 30<sup>th</sup>, which diverted staff's time to accomplish the change.

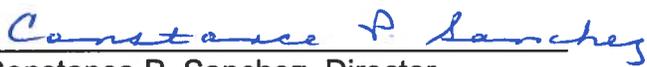
# Appendix B - Management Response

Management Response to Audit AU14-F02  
Financial Services Department  
Utilities Business Office Follow-Up Audit Report  
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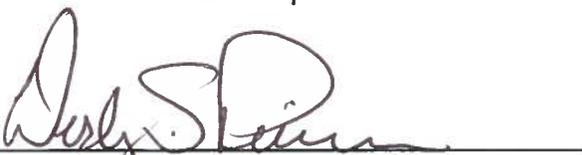
- Staff was also working on the 14-month year-end close for the external audit for FY 2014 (October, 2014 to May 2015).
- The Utility Business Office began implementation of a new utility billing software system (October, 2014 – December, 2015).
- Five key staff members involved in the implementation of the recommendations either retired, transferred positions, or were terminated from City employment between February 2014 and August 2015.

The pending recommendations that have not been implemented relate to Robstown utility accounts, and these will be addressed once a prior request made by Robstown to the City of Corpus Christi regarding interconnection between the two entities is fulfilled by the City of Corpus Christi.

Sincerely,

  
Constance P. Sanchez, Director  
Financial Services Department

9-1-2015  
Date

  
Wes Pierson  
Assistant City Manager

9/1/15  
Date

  
Ronald L. Olson  
City Manager

1 Sep 2015  
Date