



AUDIT REPORT



DATE

December 22, 2017

NO.

2017-006

CHARLOTTE COUNTY UTILITIES

ACCOUNTS RECEIVABLE

INTERNAL AUDIT DIVISION
ROGER D. EATON
CLERK OF THE CIRCUIT COURT AND COUNTY COMPTROLLER
CHARLOTTE COUNTY FLORIDA

Honorable Roger D. Eaton
Charlotte County Clerk of the Circuit Court and County Comptroller
350 East Marion Avenue
Punta Gorda, Florida 33950

We have completed an audit of the policies, procedures, and controls related to the Accounts Receivables for Charlotte County Utilities.

The following is a report of the results of these audit procedures. This report details the current practices and includes our comments and recommendations. Responses from Management to the recommendations have also been included.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "D Mitchell".

Diane Mitchell
Internal Audit Director

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EXECUTIVE SUMMARY

Internal Audit has completed a review of Accounts Receivables at Charlotte County Utilities (CCU). The audit consisted of a review of existing operating policies and procedures, County Resolutions, applicable Florida Statutes and Florida Administrative Rules for the accounting of receivables. It included the review of various rates, fees, charges and related meter readings, as well as the examination and evaluation of the system of internal controls surrounding the cash receipts process. It also included the reconciliation process, the aging of receivables and the collection efforts for delinquent accounts.

In our opinion, controls were adequate and meter readings, billings, accounts receivables postings, and collections were processed in an accurate and timely manner. With the exception of the comments included in this report, the audit revealed compliance with current County Resolutions and applicable Florida Statutes and Administrative Rules and adherence to internal control procedures. Written policies and standard operating procedures existed for the activities related to the issues addressed in the audit.

Our review determined the following:

1. CCU should determine if Board of County Commissioners approval is required authorizing CCU to make adjustments to customer accounts.
2. An opportunity for improvement exists if the billing software “Banner” and the Enterprise Assets Management System “EAMS” were able to interface.
3. The security of cash and cash equivalents is compromised since some key control policy and procedures were not in place.
4. The reconciliation of the Accounts Receivable subsidiary ledgers to the General Ledger is not performed on a timely basis.
5. CCU should review the Red Flags Rule in regard to electronic fund transfers.
6. Standard Operating Procedures for writing SOPs are not always followed.

BACKGROUND

Charlotte County Utilities (CCU) is a separate government-owned enterprise that is fully funded by customer rates, fees and charges. CCU is accounted for in an internal service fund and all policies and rates are established and reviewed by the Charlotte County Board of County Commissioners.

CCU provides water supply/distribution, wastewater treatment/collection, and reclaimed water storage/distribution services to approximately 59,000 customers including residential, non-residential, and wholesale accounts. CCU also provides services to developers. Among these services are system locates, water and wastewater service availability, and development plan reviews.

CCU uses “Banner”, a utilities billing and customer care software. “Banner” is critical to CCU because it specifically supports its operations as it provides automated capabilities to collect,

manage, and analyze information about customers, locations, accounts, and the provision of services. "Banner" maintains CCU's accounts receivable, and retains histories such as service, credit, billing, account summaries, and audit trails. "Banner" includes processes to calculate charges, print bills, process delinquent charges, and apply and distribute payments.

CCU is divided into 4 divisions: Administrative Services, Business Services, Engineering, and Operations. Our audit focused on Business Services which is comprised of Customer Service, Billing and Collection, and Meter Services sections. Billing and Collection is responsible for the billing and collection of the County's utilities rates, fees, and charges. Specifically, the division processes payments for water, wastewater, reclaimed water, and other fees and service charges, including meter installation, line extensions, etc.

The billing process begins with meter readings, which are done by Meter Services Specialists. Customers are billed in one of 51 monthly billing cycles. At the time of the audit, CCU had completed the installation of Automated ("Fixed-Base") Meters throughout the county. These are two-way communication meters which CCU can read remotely and billing information can be downloaded in to its billing program "Banner".

The billing process continues with Utility Billing Specialists downloading, correcting meter read data, and generating and printing monthly customer bills. Printed bills are delivered to "Florida Mail and Print" in Fort Myers, a third party vendor, to be assembled and mailed out to CCU customers.

Besides being charged for water consumption, CCU customers are charged for repairs, installations, line extensions, etc., performed by Construction (a section of Engineering), Meter Services (a section of Business Services) and by the Operations division. Meter servicing and repairs are separately tracked through work/service orders using two different and distinct systems. Repairs and service performed by Business Services are tracked through work orders prepared in "Banner" and repairs and service performed by Operations are done through Operations' Enterprise Assets Management System ("EAMS"), which tracks the manpower, equipment, and materials used.

The use of a work order tracking system from "Banner" and "EAMS" provides CCU the information needed for computing the amount for services and repairs that are ultimately billed to customers.

CCU customers have a wide variety of payment methods available to them: automated pay by phone; online through the CCU website (Billtrust); in person; by mail; through authorized cash payment agents and drop boxes; and via electronic funds transfer through financial institutions.

Payments received for services are handled by the Cash Office in Billing and Collection. The Cash Office processes cash, checks, Billtrust, Global, CheckFree, FIS payments, and also payments received in the mail and at the drop boxes located at CCU. The Cash Office also prepares the bank deposits and journal entries for the EDEN general ledger.

Payment and deposit documentation is routed daily to the County Fiscal Services Division and the Clerk of Courts Comptroller's Division for review and approval. "Banner" functions as an integrated sub-ledger to the EDEN general ledger and transactions are updated daily from "Banner" to EDEN. The Fiscal Services Division performs daily reconciliations of deposits

and accounts receivable in “Banner” and EDEN, including journal entries to account for any adjustments. According to procedures, the Fiscal Services Division must reconcile the EDEN accounts receivable general ledger balance with the subsidiary ledgers in “Banner” on a monthly basis.

CCU reviews its accounts receivables periodically to determine timely collection. Receivables that are over 90 days due at the last day of the County’s fiscal year end are deemed uncollectible. CCU “Credit and Collection Policy” adopted by Resolution, gives CCU authority to classify an account as uncollectible and adjust it as a bad debt. The policy also provides that the Charlotte County Board of County Commissioners will ratify those uncollectible accounts annually.

AUDIT OBJECTIVES

1. Ensure that CCU has effective and adequate policy and control procedures in place for the billing, collection, and recording of revenue transactions.
2. Determine that CCU billing processes are operating efficiently and effectively.
3. Determine that rates, fees, and charges billed for services comply with those approved by the Board of County Commissioners in Resolution 2016-017.
4. Evaluate CCU billing system “Banner” to ensure customers are billed in a timely manner and that the charges are accurate.
5. Determine compliance with applicable Florida Statutes and Administrative rules, as well as with other Resolutions adopted by the Board of County Commissioners, and with proper accounting practices.
6. Ensure that the Accounts Receivable general ledger accounts are properly updated and reconciled to the subsidiary ledgers on a monthly basis.

SCOPE

The audit included a review of the billing of rates, fees, and other charges along with customer master records and related meter readings. In addition, we reviewed controls over the cash receipt process, the accounting of accounts receivables including the reconciliation process and the aging of receivables, as well as the collection efforts made for delinquent accounts. We reviewed billing data for February 2017 for the 58,830 accounts billed. Some topics/issues addressed by County Resolutions and applicable Florida Statutes were not present in the test month, therefore, they were reviewed using data from outside the test period.

CCU provided several databases that contained the information required to perform testing on the majority of the criteria included in the audit. The databases were input to the audit data analysis software (IDEA) and tested for accuracy and completeness. IDEA was then utilized to test the data components for compliance with applicable County Resolutions, Florida Statutes,

Administrative Rules, and current case law, when applicable. Among the data tested were the rates, fees, and charges for services rendered.

IDEA was also used to randomly select a sample of 100 accounts to perform testing when compliance could not be verified by the use of the audit software. This testing included verification of amounts charged for consumption when accounts were on the tier criteria, etc.

AUDIT METHODOLOGY

1. We reviewed:
 - a. Applicable provisions of Florida Statutes: Section 180-135, F.S. Utility services; refusal or discontinuance of services for nonpayment of service charges by former occupant of rental unit prohibited; unpaid service charges of former occupant not to be basis for lien against rental property, exception, Section 159-17 F.S. Lien of service charges, Section 180-136, F.S. Water or sewer utilities; notice, Section 153.11, F.S. Water service charges and sewer service charges; revenues, Section 153.67, F.S. Unpaid fees to constitute lien, Section 153.83, F.S. Free water and sewer services prohibited, Section 125.0105 F.S. Service fee for dishonored check, and Section 832.08(5), F.S. State attorney bad check diversion program; fees for collections.
 - b. Applicable provisions of Florida Administrative Code Section 25-30.350, F.A.C. Underbillings and Overbillings for Water and Wastewater Service.
 - c. Resolution 2007-022, Uniform extension Policy, Resolution No. 2007-179, Credit Collection Policy, and Resolutions No. 2012-019, 2014-129, 2016-017, Water, Sewer, and Reuse Utility Rates, Fees, and Charges, which adopted and revised CCU rates, fees, and charges for water, sewer, and reclaimed water services.
 - d. CCU Operating Procedures for the Business Services Division.
2. Interviewed management and staff of CCU Business Services and the Fiscal Services Divisions, as well as personnel in the Clerk of Court Comptrollers Division, to obtain information regarding operations and internal control structures.
3. Observed and walked through the several processes in CCU Business Services related to billing, payment and collection, and the accounting and maintenance of customer accounts.
4. Tested the information generated by “Banner” for calculation of rates, fees and charges for compliance with applicable Resolutions.

COMMENTS AND RECOMMENDATIONS

1. CCU should determine if the Board of County Commissioners should grant them the authorization to make adjustments to customer accounts.

CCU prepares adjustments for water and sewer charges to customer accounts for a variety of reasons. Customers are allowed two of any combination of adjustments per calendar year. Examples of the types of adjustments performed by CCU are as follows: billing errors; overpayments made by customers; reconnection fees for non-payment; returned item fees; leaks or unexplained use; unauthorized use, etc.

Audit could not locate a County Ordinance, Resolution, or policy granting Charlotte County Utilities the authority to perform adjustments to customer accounts. However, the Business Services Division of CCU has a written standard operating procedure (SOP) in place titled "Adjustments and Verbal Promises" that addresses adjustments. The SOP includes guidelines and criteria for the various types of adjustments that can be performed by CCU. The SOP also includes the types of items that are prohibited from adjustments.

At the time of our review, we determined that CCU was adjusting customer accounts according to the guidelines detailed in the "Adjustments and Verbal Promises" SOP. However, we could not locate delegation of authority from the Board of County Commissioners providing CCU with the ability to perform such adjustments.

We recommend CCU determine if Board of County Commissioners approval is required granting CCU the authority to make adjustments to customer accounts.

2. An opportunity for improvement exists if the billing software "Banner" and the Enterprise Assets Management System "EAMS" were able to interface.

Customer Service and the Billing and Collection subdivisions prepare and track work orders using "EAMS" for services performed by Operations. Since "Banner" and "EAMS" do not interface, once work is completed by Operations, the Utility Billing Specialists need to create a new work order in "Banner" for each "EAMS" work order so that customers can be properly billed.

The audit identified a major opportunity for improvement if "Banner" and "EAMS" were able to communicate, eliminating the need to duplicate the work/service order for the same event in the two systems. A single work order would improve efficiency by saving the time spent in redundant activities and preventing errors that might occur when inputting the "EAMS" work order into "Banner".

We recommend CCU explore the possibility of enabling "Banner" and "EAMS" to interface to allow for the creation of a single work order for repairs.

3. The security of cash and cash equivalents is compromised.

During our review of the cash receipts process and our observations of tasks performed by the employees involved in the process, we noted several weaknesses. They are as follows:

a. There are no key control policy and procedures in place over cash

We were able to verify that there are six employees with access to the cash office. Individual keys are assigned to the two supervisors and the person in charge of the cash office. These individuals carry the keys at all times and take them out of the CCU premises after work hours. Individuals assigned keys are not required to sign authorization forms upon their issuance. A fourth key is assigned to another employee and is shared by her with the two remaining staff members. This key is used as backup when the person in charge of the cash office is not available. Audit observed that this key is hanging on a wall in a cubicle located across from the cash office. This cubicle is in a busy hallway and the key can be easily accessed by any person at any time. There should be a requirement for this key to be kept in a secured location, or if assigned to specific individual, security procedures should be addressed. Key control is one of the biggest risks that businesses face. Key control refers to various methods to ensure that keys are only used by a limited number of authorized personnel.

We recommend CCU develop key control policy and procedures to ensure the security of the cash and cash equivalents kept in the cash office.

b. Cash is being handled by family members assigned to related functions

Cash payment for services and fees is received by Customer Account Specialists and receipts are automatically printed at the printer located inside the cash room. Customer Account Specialists bring the payment to the cash office window and the person in charge of the cash office provides them with the payment receipt, which in turn is given to the customer making the payment.

Audit noted that one of the Customer Account Specialists receiving cash payments is a relative of the person in charge of the cash office, which increases the risk of collusion because of two family members. Individuals acting collectively can alter financial data or other information in a manner that cannot be identified by control systems.

The relationship was questioned and near the end of the audit field work, the Business Services Manager informed the auditor that the relative was assigned to a different position because of the risk.

We recommend CCU continue with the practice of maintaining an open eye on situations that could compromise the security of County assets, especially cash and cash equivalents which are considered a high risk area.

4. The reconciliation of the Accounts Receivable subsidiary ledgers to the General Ledger is not performed on a timely basis. In addition, any differences should be investigated and resolved in a timely manner.

The CCU billing system “Banner” is the subsidiary ledger that supports the Accounts Receivable balance in the EDEN general ledger. Month end balances in these accounts generally exceed \$4 Million. According to the procedures currently in place, the Fiscal Services Division should perform the Accounts Receivable reconciliation on a monthly basis. As of the end of June 2017, these general ledger accounts had not been reconciled to the subsidiary ledgers since the end of fiscal year 2016, a period of 9 months.

Best practices and widely-accepted accounting principles call for monthly reconciliations between subsidiary systems and material control accounts. Management of accounts receivable is crucial because the timing of receivables is a major factor in CCU’s cash flow, especially for a business entity that has customer billing and collection as the main source of its revenues. Reconciling the Accounts Receivable general ledger accounts to the subsidiary ledgers is an important internal control to minimize the risk of fraud, error and loss and establishes the accuracy of the balance sheet asset.

We recommend the Fiscal Services Division reconcile CCU Accounts Receivable subsidiary ledgers to the General Ledger in a timely manner in accordance with current procedures.

We also recommend CCU ensure that the Accounts Receivable reconciliations are performed on a timely basis since customer billings and collections are the main source of its revenues.

5. Charlotte County Utilities should review the Red Flags Rule in regard to electronic fund transfers.

The Federal Trade Commission (FTC) enforces the Red Flags Rule with several other agencies. The Red Flags Rule requires financial institutions and creditors to develop and implement internal programs designed to prevent identity theft and mitigate its results. Such programs must effectively identify, detect, and respond to certain indicators of possible identity theft labeled “red flags”.

Government utility companies are considered as creditors with covered accounts under the rule. Therefore, CCU is required to implement such a program, which must include four basic elements:

- Identify business-specific identity theft “red flags”
- Define procedures to detect red flags in its day-to-day operations
- Act to prevent and mitigate harm when red flags are identified
- Develop, implement and maintain a red flags program appropriate to the nature of their operations, size and complexity.

While the FTC does not conduct routine compliance audits, they will perform an audit in response to a complaint. Given the monetary penalties (Federal and State) that may be imposed for each instance of non-compliance, it's important that CCU takes the steps necessary to comply with the rule.

We recommend CCU, in conjunction with the County Attorney's Office, perform the steps necessary for the implementation of an identity theft prevention program to comply with the Red Flags Rule, based on Sections 114 and 315 of FACT (Fair and Accurate Credit Transactions Act of 2003).

6. The current Standard Operating Procedure (SOP) for writing, processing, and updating an SOP is not always followed.

CCU has written guidance for preparing Standard Operating Procedures (SOPs). The document titled "Writing, Processing, & Updating an SOP" was last edited, reviewed, and approved on December 28, 2010 and defines an SOP, outlines its uses and benefits, who should write it, and the review and approval process.

Audit found that many of the written standard operating procedures provided by CCU for review during the audit did not conform to the guidelines outlined in the "Writing, Processing, & Updating an SOP", since they were missing the required review and approval dates and signatures.

We recommend CCU review its guidance for "Writing, Processing, & Updating an SOP" to ensure its completeness and accuracy, and to make any necessary revisions.

We also recommend CCU, upon revision of its guidance, update all current SOPs to ensure they were properly reviewed and approved.

ACKNOWLEDGEMENT

We would like to thank the Management and Staff of Charlotte County Utilities as well as the County Fiscal Services Division and the Clerk of the Circuit Court Comptroller's Division for their cooperation and assistance in the completion of this audit.

Audit performed by:
Orlando Solarte
Senior Internal Auditor



MEMORANDUM

Date: December 22, 2017
To: Diane Mitchell, Director of Internal Audit
From: Travis S. Mortimer, PE, Interim Director *Tom*
Subject: **CCU Audit Report**

Below you find my responses to the most recent CCU Audit Report:

1. Recommendation: CCU determine if Board of County Commissioners approval is required granting CCU authority to make adjustments on customer accounts

Response: *CCU is developing a comprehensive Policy and Procedure Ordinance that will include authority for adjustments, to be submitted to the Board within the next couple of months.*

2. Recommendation: CCU explore the possibility of enabling Banner and EAMS to interface to allow for the creation of a single work order for repairs

Response: *CCU agrees with the recommendation and intends on including a single work order system as part of the criteria for the new EAMS replacement.*

3. Recommendation: CCU develop key control policy and procedures to ensure the security of cash and cash equivalents kept in the cash office

Response: *This has been complete. Security measures have been established to limit the access to the "cash room".*

4. Recommendation: CCU continue with the practice of maintaining an open eye on situations that would compromise the security of County assets, especially cash and cash equivalents which are considered a high-risk area

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Response: *Agreed. We will ensure that the security of the County assets will continue to remain a high priority.*

5. Recommendation: CCU ensure that the Accounts Receivable reconciliations are performed on a timely basis since customer billings and collections are the main part of its revenues

Response: *Staff members from CCU, Clerk's Finance and Fiscal met to discuss methods for timely reconciliation. We will be recommending that Eden and Banner integrate – reducing considerable staff time for reconciliation and improved efficiencies. We will also establish quarterly meetings to address fiscal status and issues.*

6. Recommendation: CCU, in conjunction with the County Attorney's Office, perform the steps necessary for the implementation of an identity theft prevention program to comply with the Red Flags Rule, based on Sections 114 and 315 of FAT (Fair and Accurate Credit Transactions Act of 2003).

Response: *We have reviewed the qualifiers for compliance to the Red Flag Rules and because we do not use consumer reports in connection with a credit transaction, give information to credit reporting companies with a credit transaction, or advance funds, the Rule does not apply to Business Service Operations.*

7. Recommendation: CCU review its guidance for Writing, Processing and Updating an SOP to ensure it completeness and accuracy, and to make any necessary revisions.

Response: *Agreed, Staff will be reviewing current SOPs for compliance to the Writing, Processing and Updating an SOP and will make necessary revisions.*

8. Recommendation: CCU, upon revision of its guidance, update all current SOPs to ensure they were properly reviewed and approved.

Response: *Agreed, staff will ensure that SOPs are properly reviewed and approved.*

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