

MANATEE COUNTY CLERK OF THE CIRCUIT COURT  
INTERNAL AUDIT DEPARTMENT  
PUBLIC WORKS FISCAL SERVICES DIVISION  
A U D I T R E P O R T

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**A U D I T R E P O R T**

A financial, compliance, and operational audit of Manatee County's Public Works Fiscal Services Division was conducted by the Internal Audit Department for the audit period January 1, 1996 through December 31, 1997. The audit was performed in accordance with *Generally Accepted Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors.

## **BACKGROUND:**

The Public Works Department – Fiscal Services Division is responsible for customer relations, utility billing, meter readings and accounting. In addition, Fiscal Services provides financial coordination support services to the Public Works Department in areas such as budgeting, purchasing, accounts payable, accounts receivable and revenue reconciliation. The audit included review of the following sections of the Public Works Fiscal Services Division:

The Accounting Section is responsible for processing Non-sufficient Funds (NSF) checks, monitoring lockbox services, compiling accounts payable documentation, processing of construction meters and landfill charge accounts, balancing and compiling reports, and billing accounts manually.

The Customer Service Section is responsible for handling customer information and billing inquiries for water, sewer and garbage services. This section is also responsible for establishing services for new customer accounts, the processing of payments from customers, the initiation of turn off service orders, and the collection of delinquent accounts.

The Accounts Receivable Section is responsible for data input, maintaining and updating customer file data for utility billing, producing and mailing utility bills to system customers, and producing regular reports for account reconciliations.

The Meter Section is responsible for reading water meters within the system on a monthly basis for billing purposes, installing and repairing water meters, and annual field testing of large water meters to ensure accuracy of the readings.

## **PURPOSE/OBJECTIVE:**

The main audit objectives included, but were not limited to, the following:

- To verify accuracy and input timeliness of financial data, and reports processed and received by the Public Works Fiscal Services Division.
- To verify an adequate system of internal control exists to safeguard assets, maintain the integrity of reports on operations, and provide adequate evaluation of the Public Works Fiscal Services Division's objectives and responsibilities.
- To verify compliance with significant laws and regulations, including Florida Statutes, federal regulations, ordinances, resolutions, policies, and signed agreements or contracts related to the Public Works Fiscal Services Division.
- To evaluate operational efficiency and effectiveness.

**SCOPE:**

The financial audit scope consisted of a review of accounts, financial transactions, and reports of the Fiscal Services Division for the period January 1, 1996 through February 27, 1998.

The compliance audit scope consisted of a review of the policies and procedures, Florida Statutes, federal regulations, ordinances, resolutions, contracts, administrative orders and agreements related to the Fiscal Services Division for the period January 1, 1996 through December 31, 1997.

The operational audit scope consisted of a review of the Fiscal Services Division's internal controls and the effectiveness and efficiency of the operations during the audit period from January 1, 1996 through April 30, 1998. Management controls were also reviewed to identify significant weaknesses that may have contributed to deficient performance.

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**METHODOLOGY:**

Internal control evaluations were accomplished by flow charting key operations, discussions with management and staff, observations, and analytical and substantive testing of individual internal controls.

Risk analysis was used to establish priorities of audit objectives. Statistical sampling was used whenever appropriate to accomplish audit objectives.

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**IRREGULARITIES, ABUSE, OR ILLEGAL ACTS:**

Except as noted in the report, no indications of irregularities, abuse, or illegal acts were discovered during the audit that could affect the Public Works Fiscal Services Division for the audit period ending December 31, 1997.

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**TEST OF COMPLIANCE:**

Internal Audit tested compliance with certain laws and regulations, obtained an understanding of internal controls, and assessed control risk. Tests performed appeared to provide sufficient evidence

to support an opinion on compliance and internal controls.

Except as noted in our audit report, tested items were in compliance with significant laws, regulations, and internal controls that included Florida Statutes, ordinances, resolutions, personnel policies, administrative orders, and other policies established by the Public Works Fiscal Services Division.

**STATEMENT ON INTERNAL CONTROL STRUCTURE:**

In planning and performing our audit of the Public Works Fiscal Services Division for the period ending December 31, 1997, we considered its internal control structure in order to determine our auditing procedures for the purpose of this report. As a result, we noted in the audit report any significant matters involving the internal control structure and its operations that we consider to be reportable conditions under standards established by the U.S. General Accounting Office, *Government Auditing Standards*. Reportable conditions involve matters relating to significant deficiencies in the design or operation of the internal control structure, that in our judgment, could adversely affect the organization's ability to record, process, summarize and report on data consistent with the intent of management.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, as defined above. In addition, because of the inherent limitations in any internal control structure, significant deficiencies in the design or operation of the internal control structure may exist and not be identified. We believe the conditions identified in our audit report constitute reportable conditions as previously defined.

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**MANAGEMENT SUMMARY:**

**The Fiscal Services Division of the Public Works Department is staffed by dedicated hard-working employees committed to providing excellent customer service to the residents of Manatee County. We commend the Division for outstanding service in the processing of bills for water, sewer, and garbage services to the approximately 66,000 residencies.**

**The Division is staffed by employees with considerable experience on the job, while the manager of the Division is relatively new to his position. The complexity of the work, variety of tasks, and large amount of revenue processed by this Division increases the difficulty of effective supervision. Significant numbers of internal controls are outdated and are not functioning efficiently. Improvements in the control structure have been recommended in this report that will assist managers in the effective and efficient discharge of their responsibilities.**

**Improvements in operations are recommended in the following areas:**

**01 – Year 2000 Compliant Software Programs:** The Customer Information System (CIS), Customer Service cash registers, and the Landfill scalehouse computer system need to be enhanced or replaced to be compliant with the year 2000. (See Page 8 for more details)

**02 – Data Input Verification:** Data input to the CIS system and the general ledger needs to be verified to assure accuracy of input. In addition, adequate and clear documentation should be maintained to support adjusting entries, and certain operational records need to be retained in compliance with record retention requirements. (See Page 9 for more details)

**03 – Accounts Billed Manually:** Duties need to be divided among personnel to prevent one person from performing interrelated tasks associated with accounts that are billed through the Finance System. In addition, documentation standards should be strengthened for accounts billed through the Finance System. (See Page 10 for more details)

**04 – Inventory Controls Over Water Meters:** Significant progress has been made in the assignment of water meters to specific customer accounts; however, accountability can be further enhanced by performing physical inventory of water meters available for installation. (See Page 11 for more details)

**05 – Construction Meters:** Duties need to be divided among personnel to prevent one person from performing incompatible tasks associated with processing of construction meter accounts. In addition, other controls over construction meters are recommended. (See Page 12 for more details)

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#### **MANAGEMENT SUMMARY: (Continued)**

**06 – Mandatory Garbage Collection Provision:** Collection of tenant garbage accounts from property owners and assessment of mandatory garbage fees from owners of vacant commercial properties is required by Ordinance but has not been pursued. We recommend assessment of property owners or amend the Ordinance changed to forgo such collections. (See Page 13 for more details)

**07 – New Account Charges and Garbage Deposits for Roll-off Containers:** Improvements could be made in the collection of new account charges and deposits on roll-off container accounts. (See Page 14 for more details)

**08 – Refund Procedures:** We recommend the Division comply with current policy for refunds in excess of \$500 on active revenue accounts and with the record retention requirements. In addition, a resolution is needed for the transfer of small credit balances which would be similar to R-93-177. (See Page 15 for more details)

**09 – Compliance with Area-wide Variances in the Solid Waste Ordinance:** We recommend management annually evaluate the continuing need for areas designated as area-wide variances in compliance with Ordinance 85-11. (See Page 16 for more details)

**10 – Collection Efforts Performed on Delinquent Accounts:** We recommend internal controls be strengthened over the collection efforts on delinquent accounts. (See Page 17 for more details)

**11 – Reclaimed Water Contracts:** Improvements can be made in the monitoring of contracts for reclaimed water distribution. (See Page 18 for more details)

**12 – Processing of Non-sufficient Fund (NSF) Checks:** Duties need to be divided among personnel to prevent one person from performing incompatible tasks associated with the processing of NSF checks. (See Page 19 for more details)

**13 – Ordinance Consolidation:** We support management's efforts to combine the existing Solid Waste Ordinances into one regulatory document. (See Page 20 for more details)

**AUDIT REPORT AUTHORIZATION:**

Other minor findings, not included in this report, have been communicated with management or corrected during the audit. We would like to thank the Public Works Fiscal Services Division's personnel and management for the cooperation and courtesy afforded to our auditors throughout the audit.

This audit report has been reviewed and authorized by:

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Richard J. Orienti, CIA, CFE R. B. "Chips" Shore

Director of Internal Audit Clerk of the Circuit Court

#### AREA FOR IMPROVEMENT # 01

Subject: Year 2000 Complaint Software Programs

The Customer Information System (CIS), Customer Service cash registers, and the Landfill scalehouse computer system are not 2000 year compliant. Management is in the process of purchasing a new customer information system and is currently working with the Information Services Department to ensure that all systems will be year 2000 compliant.

**Internal Audit recommends management continue to pursue year 2000 compliance with all systems.**

#### AREA FOR IMPROVEMENT # 02

Subject: Data Input Verification

The Accounts Receivable Section is responsible for all data input and adjusting entries to customer accounts. This section could improve their operations by performing verification of data entered to the Customer Information System (CIS) and/or the general ledger to ensure input accuracy. In addition, adequate and clear documentation should be maintained to support adjusting entries. Specialty reports

and exception reports, when ordered and used for corrections on system information, should be retained according to record retention laws.

**Internal Audit recommends the Accounts Receivable Section perform data input verification. In addition, we recommend that all supporting documentation be adequate to provide an audit trail sufficient to ensure that the adjustments comply with management's intentions. We further recommend reports used for data input verification and corrections be retained in compliance with record retention requirements.**

### AREA FOR IMPROVEMENT #03

Subject: Accounts Billed Manually

A segregation of duties does not exist in the processing of the accounts billed manually through the Finance System. One employee currently has the ability to establish and change vendor information; prepare entries for billings, including charges and credits; receive and mail invoices; and has access to billing payments. Supervisory approval is not always being obtained. Without adequate segregation of duties, errors and irregularities can occur and go undetected.

Other improvements to operations include, but are not limited to the following:

1. Obtain supporting documentation that is adequate and accurate.
2. Ensure billing backup consists of original documents.
3. Ensure invoice numbers, vendor numbers, and invoices are unique and adequately controlled.
4. Ensure that manually billed accounts are actively tracked, timely processed, assessed late penalties, and follow collection efforts similar to regular accounts on the Customer Information System (CIS).
5. Utilize the CIS system whenever practical to benefit from enhanced operational controls.

**Internal Audit recommends that duties performed by employees be divided among personnel to prevent the same person from performing interrelated duties for accounts billed manually. In addition, we recommend that management incorporate the above improvements to improve the billings of manual accounts.**

#### AREA FOR IMPROVEMENT #04

Subject: Inventory Controls Over Water Meters

Significant improvement of inventory controls over water meters has been made since the 1989 audit report. The Meter Section needs to continue to improve control over the inventory of water meters by periodically performing an inventory of all meters available for installation, and reconciling it to the listing of meters on the Customer Information System (CIS). Controlling water meters by performing inventories can reduce the potential of meters being used to obtain free water.

**Internal Audit recommends physical inventory of water meters be performed periodically to improve accountability for all water meters.**

#### AREA FOR IMPROVEMENT # 05

Subject: Construction Meters

Segregation of duties needs strengthening for the processing of construction meter accounts. One employee is responsible for the issuing and receiving returned construction meters; collecting security deposits; obtaining meter readings from the customers; billing the customer; and receiving payments from the customer. Without adequate segregation of duties, errors and irregularities can occur and go undetected.

In addition, construction meters with a diameter under two inches require the customer to report water usage. These accounts are established on the Customer Information System (CIS) computer system as a quarterly billing cycle. Failure to report water usage can result in a \$15 penalty. Areas where controls could be strengthened included, but are not limited to:

1. billing accounts quarterly and regularly;
2. retrieving and checking for malfunctions on construction meters which lack activity;
3. increasing the customer penalty for not reporting water consumption on a quarterly basis;
4. obtaining complete customer identification on accounts; and

5. verifying that new construction meter customers do not have outstanding account balances.

**Internal Audit recommends that duties be divided among personnel to prevent the same person from performing incompatible duties associated with the processing of construction meters. We recommend management bill customers quarterly and strengthen procedures for retrieval of meters without reported readings or no activity. We further recommend increasing the penalty for not reporting water consumption on a quarterly basis. In addition, we recommend complete information be obtained for all accounts and previous balances be collected prior to issuing new construction meters.**

#### AREA FOR IMPROVEMENT # 06

Subject: Mandatory Garbage Collection Provision

Ordinance 86-7 requires that owners of rented property pay garbage fees when renters do not pay. Twenty-five percent of the garbage accounts written off in 1997 were listed for tenant accounts. The Customer Service Delinquent Account Section can improve collection for delinquent garbage fees by assessing property owners for delinquent tenant accounts.

The Customer Service Section is following an unwritten policy that does not charge owners of vacant commercial properties for mandatory garbage collection. There is no exemption from charging vacant commercial property owners in either Ordinance 85-11 or Rate Resolution 96-242.

**Internal Audit recommends the Fiscal Services Division assess and collect garbage service charges from property owners as required by the Ordinance or have the Ordinance amended by the Board of County Commissioners.**

#### AREA FOR IMPROVEMENT # 07

Subject: New Account Charges and Garbage Deposits for Roll-off Containers

The Customer Service Solid Waste Collection Administration Section could improve operations by collecting the \$10 new account charge included in the rate resolution for garbage roll-off containers. The Section could also improve operations by collecting deposits on all customer accounts with roll-off containers as required by the rate resolution and the Solid Waste Ordinance 85-11.

**Internal Audit recommends the Customer Service Solid Waste Collection Administration Section improve collection of new account charges and deposits on accounts with roll-off containers as required by the Ordinance and the Rate Resolution.**

#### AREA FOR IMPROVEMENT # 08

Subject: Refund Procedures

The utility customer refund process could be improved in the following areas:

1. Obtain approval for refunds on active accounts in excess of \$500 from the Board of County Commissioners. This does not include refunds of deposits, but are refunds for revenue items.
2. Retain the monthly report of accounts with credit balances used to generate refunds.
3. Obtain a resolution by the Board of County Commissioners for handling small credit balances on closed accounts. This resolution should include a method for obtaining consent from the account holder consistent with a similar resolution (R-93-177) relating to the transfer of small credit balances.

**Internal Audit recommends the Fiscal Services Division comply with the Board of County Commissioner's policy for refunds in excess of \$500. Additionally, we recommend that all operational reports be retained according to record retention laws. Internal Audit also recommends management formalize the refund policy relating to small credit balances on closed accounts by creating a resolution to be approved by the Board of County Commissioners.**

## AREA FOR IMPROVEMENT # 9

Subject: Compliance with Area-wide Variances in the Solid Waste Ordinance

Ordinance 85-11 does not require mandatory garbage service for certain areas designated as area-wide variances. These areas are normally located in rural locations which are difficult to service. Development in these rural locations has increased the solid waste services provided by the waste hauler. The area-wide variance designations have neither been reviewed nor updated to ensure the continuing need for exemption from mandatory collection of solid waste in those areas where services are now being provided. The Director of Public Works should annually review all areas designated as area-wide variances to assure this temporary designation is necessary as required by the Ordinance.

**We recommend management annually evaluate the continuing need for areas designated as area-wide variances in compliance with Ordinance 85-11.**

## AREA FOR IMPROVEMENT # 10

Subject: Collection Efforts Performed on Delinquent Accounts

The Delinquent Account Section's policies and procedures are not reflective of the current collection efforts performed, and appear to contain outdated information. The Section has established an informal collection process that appears reasonable. The Delinquent Account Section can improve the collection process by updating the policies and procedures manual, and consistently following and documenting this process on individual delinquent accounts.

**Internal Audit recommends management update the policies and procedures manual for collection efforts on delinquent accounts. We further recommend that**

**the Delinquent Account Section consistently follow the established policies and procedures.**

AREA FOR IMPROVEMENT # 11

Subject: Reclaimed Water Contracts

The Fiscal Services Division which is responsible for billing customers for water services did not have copies of contracts for reclaimed water services. Contracts provided to large volume customers are unique and are not always billed according to the terms of the contracts. Without monitoring the contracts for reclaimed water services, compliance with the terms and conditions of the contracts can not be assured.

**Internal Audit recommends the Fiscal Services Division develop procedures to obtain all contracts and ensure that provisions included in the contracts are monitored and complied with.**

AREA FOR IMPROVEMENT # 12

Subject: Processing of Non-sufficient Fund (NSF) Checks

Segregation of duties needs to be strengthened in the handling of NSF transactions by the Accounting Section. One employee is responsible for the receipt of returned checks for non-sufficient funds, customer notification, payment collection, and bank reconciliation preparation without supervisory review. Proper segregation of duties deters the possibility of employee impropriety.

**Internal Audit recommends that NSF duties performed by one employee in the Accounting Section be separated and reorganized to more than one employee.**

AREA FOR IMPROVEMENT # 13

Subject: Ordinance Consolidation

The operations of the Customer Service Solid Waste Collection Administration Section are governed by Ordinance 85-11 and four additional ordinances repealing selected sections of the original Ordinance. Management feels these partial revisions to the Ordinance complicate the ability to follow the intent of the legislation and to subsequently enforce and implement all their provisions.

**Internal Audit supports management's efforts to combine the existing Ordinances into one regulatory document.**

Management's Response:

MEMORANDUM

DATE: November 4, 1998

TO: Richard Orienti, Director of Internal Audit

THRU: Len Bramble, P.E., Public Works Director

FROM: David Brangaccio, Fiscal Services Manager

SUBJECT: Draft Audit Report Responses

Fiscal Services Division of the Public Works Department offers the following responses to the 13 areas for improvement cited in the report:

**1. Year 2000 Compliant Software Programs.**

Upgrades to accomplish Y2K compliance are underway. A contract replacement on the CIS/Utility Billing System was approved by the Board of County Commissioners on October 27, 1998.

An RFP for a new Landfill Scale House Software System has been issued and distributed to prospective vendors. Due to an overwhelming amount of questions from vendors, and addendum to the RFP is being prepared by the Purchasing Division of the Financial Management Department.

## **2. Data Input Verification.**

Data input verification for all data entered to the CIS would require additional staff members. Input of most data is verified prior to entry by inquiring into the customer's account before it is entered in the system. The new Teldata/Banner CIS will provide additional edits of input data which will provide additional quality assurance.

Data entry which involves customer account adjustments do require batch total and are followed up with specialty and exception reports. Both these reports and the underlying source documents will be retained in compliance with record retention requirements.

## **3. Accounts Billed Manually.**

During the audit process we were apprized of various areas of concern which caused staff to implement new procedures. The new procedures include the following requirements for manually billed accounts.

1. Supporting documentation is adequate and accurate.
2. Billing backup consists of original documents.
3. Manually billed accounts are actively tracked, timely processed and collection efforts are being actively pursued.
4. The CIS System is used whenever practical.
5. Supervisory approval of outgoing invoices is always obtained prior to their entry in the system.

With the implementation of the IFAS system, invoice numbers, vendor numbers and invoices are unique, and therefore are adequately controlled. We have also segregated some of the duties relative to accounts billed manually to separate the billing and collecting aspects of the function.

The processing of manual bills is currently done using the IFAS system. Unfortunately, the IFAS system does not assess late penalties for accounts which are manually billed. We will contact the Finance Department and/or Information Services Department to address this area of concern.

## **1. Inventory Controls Over Water Meters.**

The Billing and Accounts Receivable Section will provide the Meter Services Section with a listing of all inactive meters on a quarterly basis. This listing will then be used to inventory all meters in the warehouse and on vehicles assigned to the Meter Repair Section. In addition, the Warehouse Stores manager has agreed to enter meter numbers on Stores requisitions to account for meters that have been used by the Water Distribution Section.

## **2. Construction Meters.**

In January of 1997, the Account Section implemented a new procedure for regular quarterly billing of construction meter consumption through the CIS system. We are currently re-addressing the quarterly construction meter billing since a reduction in customer response has been realized. This includes the retrieval of meters which lack activity.

We concur with the recommendation for increasing the customer penalty for not reporting water consumption on a quarterly basis. We are currently developing a work assignment with the Utilities Engineer of Record for the review of the Rate resolution to include miscellaneous fees and charges.

Staff is addressing Internal Audit's recommendation to segregate duties for the processing of construction meter accounts. We are also addressing Internal Audit's recommendation to obtain complete customer identification, and to verify that new construction meter customers do not have outstanding account balances when establishing new construction meter accounts.

### **3. Mandatory Garbage Collection Provision.**

Since the Board has approved a grace period of up to 14 days between tenants where there are no charges for water, sewer or solid waste, it would seem inconsistent to attempt to collect a tenant's unpaid garbage bill from a landlord. This is particularly true since there is no parallel provision in the water/sewer enactments. Since this is contradicted by language in the Ordinance, we will seek policy guidance from the Board of County Commissioners as to their preferred course of action.

Ordinance 85-11, Section 36 (as amended) allows commercial property owners the right to establish their level of service for solid Waste Collection. It seems consistent to us that a vacant commercial property which is not generating solid waste should have the option to choose a zero level of service and therefore not be charged.

Because both of the above issues involve interpretation of Ordinance 85-11 (as amended) and may involve future amendment, an RLS is being prepared to enlist the assistance of the County Attorney's Office in these matters.

### **4. New Account Charges and Garbage Deposits for RollOff Containers.**

Management agrees that charges and deposits should be collected as provided for by the Ordinance and the Rate Resolution.

### **5. Refund Procedures.**

1. Management agrees that it should abide by the Board of County Commissioners policy on refunds in excess of \$500. It has always been our intent to do so.
2. Management was unaware that this report was being discarded. It will be retained in accordance with record retention rules in the future.
3. Staff will bring forward a Resolution similar to R-93-177 relating to the disposition of small balances on customer accounts.

### **1. Compliance with Area-Wide Variances on the solid Waste Ordinance.**

Area-wide variance from Mandatory solid Waste collection service has created an increasing number of problems in recent years. While the variance area remains predominantly rural, the population in the area continues to grow. Within the context of ward of franchises for future solid Waste collection services, the option of eliminating the variance area altogether has been endorsed by the Board and is included as option in the soon to be issued RFP. Staff's preferred solution would be to eliminate the variance area and use the existing exemption procedure to address those situations where service is impractical and acceptable alternates for disposal exist.

**2. Collection Efforts Performed on Delinquent Accounts.**

Staff agrees that an undated procedures manual is needed in the Delinquent Accounts Section of Customer Service. Staff also recognizes that installation of a new Customer Information/Billing system over the next year will impact the process used to collect delinquent accounts. In view of the impending installation of the new system, we believe it is in the best interest of the department for this manual to reflect the functionality of the new system rather than the current outmoded system.

**3. Reclaimed Water Contracts.**

For those reclaimed water customers who are billed manually, we are requesting the Utility Operations to forward executed copies of all water contracts to ensure the Accounting Section is billing in accordance with the terms and conditions of the contracts.

**4. Processing of Non-Sufficient fund (NSF) Checks.**

Staff concurs with the recommendation for the segregation of duties relating to the handling of NSF transactions, and is moving forward with Internal Audit's recommendation.

**5. Ordinance Consolidation.**

As currently structured, the re-award of a franchise or franchises for the provision of Solid Waste Collection Services will require modification of these Ordinances. Staff will include consolidation as part of the recommended changes.

LEB/DB