

HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT
HERNANDO COUNTY UTILITIES DEPARTMENT
CASH RECEIPTS AND BILLING CYCLE AUDIT
JANUARY 30, 2006

HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT
MEMORANDUM

TO: Kay Adams, Hernando County Utilities Department Director

VIA: Karen Nicolai, CPA, Clerk of Circuit Court
Larry Jennings, Interim County Administrator

FROM: Peggy Prentice, CIA, CISA, Audit Services Director

DATE: January 30, 2006

SUBJECT: Hernando County Utilities Department Cash Receipts and Billing Cycle Audit

The Audit Services Department's (ASD) Audit Projects Schedule included an audit of the Hernando County Utilities Department cash receipts and billing cycle. Based on testing, observations, and communications with key personnel, the ASD has produced the attached report for your review. This report includes the ASD's opinion of the internal control environment and its recommendations for enhancing business practices. Management's response to the recommendations is also included. A copy of the report has been forwarded to the Board of County Commissioners as an agenda "correspondence to note" item.

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

Although the ASD exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected. Specific areas for improvement are addressed later in this report.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352)540-6235, or just stop by my office in Room 201.

ATTACHMENT

copy: BOARD OF COUNTY COMMISSION:

Commissioner Christopher "Chris" Kingsley

Commissioner Hannah "Nancy" M. Robinson

Chairperson Diane Rowden

Commissioner Robert C. Schenck

Commissioner Jeff Stabins

George Zoettlein, Office of Management and Budget Director

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HERNANDO COUNTY UTILITIES DEPARTMENT
CASH RECEIPTS AND BILLING CYCLE AUDIT

Table of Contents

Acknowledgment.....	i
Purpose and Scope.....	ii
Baseline.....	iii
Discussion Points, Recommendations and Management’s Response:	
Receivable Process.....	1
Cash Collection Controls.....	1
Billing Preparation and Recordkeeping.....	1
Connection Fee Agreements.....	1

Acknowledgement

Other minor findings, not included in this report, have been communicated to management and/or corrected during fieldwork. I thank management and staff for their cooperation.

Fieldwork was performed by: Peggy Prentice, CIA, CISA, Audit Services Director
Paul DuFour, CIA, Internal Auditor

Assistance provided by: Nancy Brown, Audit Administrative Assistant

Management's response was provided by: Kay Adams, Hernando County Utilities Director

Management's response was authorized by: Larry Jennings, Interim County Administrator

This report was reviewed by Peggy Prentice and authorized by Karen Nicolai, Clerk on January 30, 2006.

Purpose and Scope

PURPOSE

Considered sources and control of data used to bill customers for water and wastewater services. Appraised the customer bill preparation function and record-keeping practices. Evaluated cash collection controls. Considered connection fee record-keeping practices.

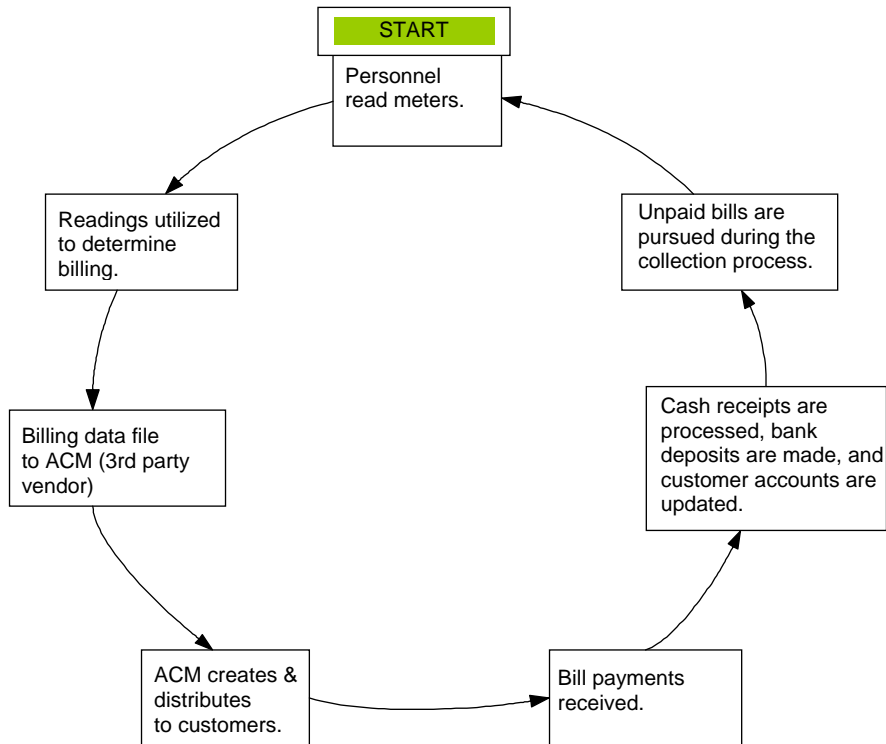
SCOPE

Compared current practices to best practices:

- ✚ Assessed if meter readings are properly authorized and controlled.
- ✚ Addressed if the billing function is performed by employees who are independent of the cash function and if controls are in place to prevent/detect errors in meter readings.
- ✚ Addressed if cash receipts are controlled by cash register, pre-numbered receipt, or other equivalent means and matched to the utility bill.
- ✚ Tested a sample of receipts to ensure that receipts are recorded promptly and deposited intact.
- ✚ Tested a sample of cash collections to address the make-up of deposits.
- ✚ Traced customer payments to their HCUD account record.
- ✚ Addressed whether receipts are periodically reviewed for unusual fluctuations.
- ✚ Addressed if any identified overages and shortages are reported to the appropriate level of management, investigated, and documented.
- ✚ Addressed if original voided and canceled receipts, if any, are retained and accounted for in the Finance records.
- ✚ Reviewed the customer delinquency history to determine the magnitude of the delinquency accounts.
- ✚ Evaluated the process for communicating information to the Finance Department.
- ✚ Considered the lock box function and internal controls.
- ✚ Considered alternative collection methods.

Baseline

The cash receipts and billing cycle begins when HCUD personnel read meters. HCUD billing personnel utilize these meter readings to calculate billings. The billing data is electronically sent from HCUD to a third party vendor (ACM) for bill creation and mailing. When customer bill payments are received, the payments are processed, bank deposits are made, and customer accounts are updated. Any unpaid bills are pursued during the collection process. This basic work flow is shown below:



The HCUD also obtains funds from developers who hookup and/or connect to the HCUD's water and wastewater infrastructure. These fees are generally defined in agreements between the Board of County Commissioners and the developer. In some instances, developers' prepaid fees are refundable unless the credits are used. These refundable amounts are generally booked as unearned revenue. In other instances, these prepaid fees are nonrefundable and are booked as revenue. The HCUD is responsible for maintaining a record of all hookup and connection fee supporting documents and developer financial transactions.

DISCUSSION POINTS, RECOMMENDATIONS AND MANAGERMENTS' RESPONSES

RECEIVABLE PROCESS

The sources and control of data used to bill customers for water and wastewater service appear to be adequate.

The billing function is performed by employees who are independent of the cash function. Collection personnel communicate with personnel who require delinquent customer account data. There is adequate segregation of incompatible duties. The delinquent customer account collection process appears to be adequate except when closed account meters are "transferred" to new customers. This concern and corresponding recommendation were reported in the "HCUD Water Treatment/Distribution Operations: Customer Service, Cashiering, and Administrative Support" report issued November 3, 2005.

Adequate controls are in place to prevent and/or detect errors in meter readings.

CASH COLLECTION CONTROLS

Cash collection controls appear to be adequate.

It appears cash receipts are adequately controlled and are reviewed for unusual fluctuations or errors. Cashiers prepare three-part deposit slips that are validated by the bank and reviewed by other personnel. Overages and shortages are reported to and investigated by management and other persons in addition to the cashier. It appears that procedures ensure receipts are recorded promptly and deposited intact. No material concerns were identified with the recording or make up of bank deposits. No material concerns were identified when tracing a sample of customer cash receipts to their account record. The HCUD has a lock box agreement with Intuition. Based upon communications with management, Intuition is performing as desired. The HCUD provides reasonable cash receipt options (drive-thru, lobby, EFT, credit card, lock box, etc.).

BILLING PREPARATION AND RECORDKEEPING

The adequacy of bill preparation and record-keeping practices were considered.

During fieldwork the third party billing company's (ACM's) Recap Report did not reconcile to the HCUD's Pentamation (financial) summary reports. Based upon testing, it appears that customer bills were accurate but the HCUD's report writer was incorrect. When this was brought to management's attention, corrective measures were taken to ensure that the HCUD's billing report records reconcile to ACM's actual billing records.

CONNECTION FEE AGREEMENTS

Weaknesses were identified with the connection fee record-keeping practices. The developer connection fee agreement control environment (record-keeping and work flow process) is not clearly defined which makes the function ineffective.

HERNANDO COUNTY UTILITIES DEPARTMENT
CASH RECEIPTS AND BILLING CYCLE AUDIT

- ✚ BCC Records maintains a list of contracts and agreements authorized by the Board of County Commissioners. This Master Contracts and Agreements list contains 20 HCUD connection fee agreements entered into between January 1, 2000, and November 1, 2005. To ensure that the HCUD maintains a complete record of the connection fee agreements in the population, the ASD attempted to trace these agreements to HCUD's "index" of connection fee agreements and then to the HCUD's electronic record (ACIS). The ASD was able to trace all 20 agreements to the HCUD's "index." Seventeen could also be traced to the HCUD's electronic Connection Fee Summary Report (ACIS record). Two could not be traced to this report because the account was closed prior to implementing ACIS. One could not be traced to the report and the ASD was not able to obtain a reasonable explanation for this potential exception. At the end of fieldwork, HCUD personnel were performing research.
- ✚ Ordinance 2003-06 addresses connection fee refunds. Some agreements contain provisions for refunding unused developer prepayments (credits). The Finance Department voiced concern that accounting standards do not allow prepayments or potentially refundable amounts to be booked as revenue until service is provided. Maintaining accurate and complete financial statements has become cumbersome due to refundable provisions in contracts.
- ✚ Some of the HCUD's financial records for developer balances could not be reconciled to the support documentation.
- ✚ Some developer account adjustments could not be confirmed due to a lack of support documentation.
- ✚ When the HCUD upgraded from one financial software program to another (Nixdorf to ACIS), the Nixdorf ending balance should have become the ACIS's beginning balance. Some balances do not appear to have transferred accurately.
- ✚ Hard copy developer agreement documents, correspondence and financial records are maintained in several locations. This is inefficient, and at times ineffective, because the decentralized filing system makes locating pertinent information difficult. The file contents are not stored in chronological order. Some documents could not be located.
- ✚ Each developer agreement has a unique six digit alpha/numeric account number. Some of these account numbers are not easily distinguishable which may have contributed to payments and credits being applied to the incorrect developer account. For example, Oak Hill Hospital's account number is HZ-0001, Oak Hill Plaza's is HZ-0005, and Evergreen Woods is HZ-0004. All three account numbers begin with "HZ-000."

HERNANDO COUNTY UTILITIES DEPARTMENT
CASH RECEIPTS AND BILLING CYCLE AUDIT

Consideration should be given to the following:

Recommendation 1 - Determine if the ACIS record of connection fee agreements contains the full population.

Management Response: Completed – ACIS record contains full population.

Recommendation 2 - Implement a written standard operating procedure that clearly defines management’s directive (record-keeping practices, timeliness, work flow, communication/coordination between staff/divisions, etc.).

Management Response: Management concurs. The Customer Service Manager has been assigned responsibility for the oversight of water and sewer developer agreements, recording, tracking and accounting. All audit recommendations will be reviewed for inclusion in the Standard Operating Procedure (SOP). In particular, actions regarding Recommendations Numbers 3, 4, 5, 6, and 9 will be in the SOP. Individual procedures will be implemented as developed, with the SOP fully implemented by October 1, 2006.

Recommendation 3 - Review each active developer agreement to confirm the current financial status. Once established, these agreements should be reviewed semi-annually throughout their life cycle to maintain accuracy.

Management Response: Management concurs. The above referenced SOP will include review processes, procedures and schedules.

Recommendation 4 - Assign unique and easy to distinguish developer agreement account numbers.

Management Response: Staff will review and ascertain feasibility of creating new agreement numbers. Any changes to the current system will be fully implemented by October 1, 2006.

Recommendation 5 - Utilize a well defined central filing and document indexing system. Maintaining a scanned image of hard copy documents may help simplify this process.

Management Response: Scanning options will be evaluated and included in the SOP.

Recommendation 6 - Set up an accurate database to track each agreement throughout its life cycle.

Management Response: Staff will include database creation and maintenance in the SOP, in conjunction with the scanning process.

Recommendation 7 - Create and utilize a “prepaid” agreement form similar to the “contributed assets” form currently utilized by the HCUD.

Management Response: Completed – form in use.

HERNANDO COUNTY UTILITIES DEPARTMENT
CASH RECEIPTS AND BILLING CYCLE AUDIT

Recommendation 8 - Adding nonrefundable language to connection fee agreements and removing refundable language from Ordinance 2003-06 will help to make the record-keeping function less cumbersome. Implementation of a letter of understanding that allows the contractor up to one year to use any credits will allow the Finance Department to move prepayments from unearned to earned revenue in a shorter amount of time. The County should not allow refunds unless the County Attorney's Office determines that there is legal substance in doing so.

Management Response: Revision prepared – Public Hearing proposed for February 14, 2006.

Recommendation 9 - Enhance management's oversight and staff's training to ensure developer account balances and records are kept accurate and complete.

Management Response: As previously stated, the Customer Service Manager has been assigned responsibility for the oversight of water and sewer developer agreements, recording, tracking and accounting. The SOP referenced above will include the necessary language to ensure proper oversight and staff training.