

**AUDIT REPORT**

**MARION COUNTY  
UTILITIES DEPARTMENT**



**Internal Audit Division**

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***DAVID R. ELLSPERMANN***  
***CLERK OF THE CIRCUIT COURT***  
***MARION COUNTY, FLORIDA***



***Wallace K. Watford, Internal Auditor***

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**FEBRUARY 2004**  
**AUDIT REPORT No. 2004-02**

A faded background image of a water tower with the words "SILVER SPRING SHORES" written on its tank. The tower is set against a light blue sky with soft white clouds.

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# Clerk of the Circuit Court Board of County Commissioners

Marion County



## Internal Audit Division

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February 27, 2004

The Honorable Board of County Commissioners

RE: AUDIT REPORT: MARION COUNTY UTILITIES DEPARTMENT

The Internal Audit Division has performed an audit of the Marion County Utilities Department. This review was focused on the numerous operational activities of the Department, expenditure and revenue controls and Department adherence to policies and procedures. Our review involved examinations of pertinent documents and records, site visits to departmental operations, interviews with department staff and management, and observations of procedures and employee activities.

This audit was performed concurrently with a contracted study by PA Consulting Group, CH2M HILL, Inc., and PB Water. This consultant was selected based on its operational expertise to conduct a performance assessment to "evaluate the effectiveness and efficiency of the utility operation in light of the rapid growth of the Utilities Department over the last two years." The consultant will issue a separate report on its findings, conclusions and recommendations. Many of our recommendations were derived independently of the consultant, but were confirmed by the consultant's concurrent review.

We have concluded that the Department has accomplished its mission in an effective manner and that Management has initiated many enhancements to operations. Management has been working on a long-range plan for the utility, using consultants, to increase its service area and improve services. Our activities disclosed certain matters deserving of Management's attention and we therefore present recommendations which should enhance the operations of the Department. These had been discussed with Management during the course of our review. Management's responses and comments are included within the report.

It is important that the enhancements, when implemented, be maintained throughout future periods. We will perform a follow-up review within the next twelve months to ascertain and report on the status of our recommendations.

We would like to express our appreciation to the Utilities Director and Department supervisory and administrative staff for their assistance and cooperation during this audit.

David R. Ellspermann  
Clerk of the Circuit Court

Wallace K. Watford  
Internal Auditor

c: Patrick G. Howard, County Administrator  
Janet Y. Tutt, Deputy County Administrator  
Vincent M. Riccobono, Utilities Director

# MARION COUNTY UTILITIES DEPARTMENT

## **EXECUTIVE SUMMARY**

We have performed an audit of the Utilities Department which concentrated on management and operational effectiveness, the system of internal controls, and established procedures over inventory, purchasing, departmental services and functions, employee safety and security of Department facilities.

In summary, we found that the Department has accomplished its mission in an effective manner and that Management has initiated many enhancements to operations, some of which are already in process. Management has been working on a long-range plan for the utility, using consultants, to increase its service area and improve services.

We did find certain other opportunities for enhancement to administration and operations. The following findings and recommendations for enhancements came to our attention during our review. These were discussed concurrently with appropriate management and operating personnel as the audit progressed. The Utilities Director has made many significant changes and refinements over the past several months, with which we concurred. Many of these recommendations were implemented or planned for implementation by management before reviewing the initial draft of this report. We want to commend the Director and the many departmental personnel (management, operational and administrative) for their assistance and cooperation in the performance of our activities.

Summarized below are our recommendations and Management's responses.

<u>RECOMMENDATIONS</u>	<u>RESPONSES</u>
1. Management develop a clear response to the departmental management and operational challenges identified in the report of the consultant's study by PA Consulting Group, CH2M Hill, Inc., and PB Water.	Concur
2. Management consider establishing a formal training plan for maintaining and improving the technical competence of Department personnel.	Concur
3. Management review the Department's compliance issues and reporting needs arising from the recent growth, and devise any enhancements to the present system.	Concur
4. Management consolidate official departmental policies and procedures into a comprehensive departmental internal procedures manual, and continue with the plan to develop a technical resources library.	Concur
5. Management present to BCC for approval of its suggested method for calculating increases in water and wastewater rates.	Concur

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| 6. Management review all rates that are not automatically changed each year to identify those that should be proposed for adjustments. | Concur |
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**RECOMMENDATIONS**

**RESPONSES**

- |   |                  |
|---|------------------|
| 7. Management consider the identified improvements to accounts receivable collections and billings.   | Concur           |
| 8. Management consider developing a separate manual for customer service personnel, to include the numerous procedures, guidelines and instructions pertaining to customer billing and accounts receivable.   | Concur           |
| 9. Management establish a plan to evaluate and ascertain whether any further changes to personnel staffing and duties are required.   | Concur           |
| 10. Management continue to review the issue of consultants usage to ensure that funds are used effectively.   | Concur           |
| 11. Management review the issues raised concerning the identified consultant agreement and clear any material exceptions.   | Concur           |
| 12. Management consider the identified enhancements to inventory controls and purchasing procedures.  | Partially Concur |
| 13. Management maintain facility security at operating plants and business office, and enhance as needed to comply with required rules and regulations, particularly the Public Health Security and Bioterrorism Preparedness and Response Act of 2002. | Concur           |
| 14. Management pursue the consultant's assertion that Department occupational injuries appear to considerably exceed the benchmark industry average.  | Concur           |
| 15. Management pursue its contemplated additional safety issues, including creation of a safety officer position and working with Risk Management to provide additional safety functions.   | Concur           |

# MARION COUNTY UTILITIES DEPARTMENT

## DEPARTMENT SUMMARY



The following background information is provided to the reader in order to better evaluate this report.

The Utilities Department provides water and wastewater services to residential and commercial customers in its operations, as shown in **Attachment A** (Departmental Organization). There are 49 full-time equivalent employees authorized for fiscal year 2004. The Department is funded through the Marion County Utilities Fund (Fund #452) and the results of operations are reported by the Utilities Director through the Public Works Bureau Chief. Department financial operations for fiscal years 1999 through 2003 are presented in **Attachment B** (Financial Analysis). Marion County Code, Chapter 19 (Water and Sewers), contains the specific ordinances pertaining to the Department.

The following departmental descriptions and goals are summarized from information in the fiscal year 2004 Proposed Budget, as prepared by the Department and submitted to the Clerk's Budget Division.

The Marion County Utilities Department stated mission is to: safely operate all Marion County facilities associated with wastewater collection and the treatment and disposal of treated effluent and biosolids residuals; safely operate and maintain all Marion County facilities associated with raw water supply and production, drinking water treatment, storage, and distribution in order to protect the public health and welfare; protect water resources for current and future users by providing supervision of County owned water and wastewater facilities. This promotes future expansion of the already existing facilities and acquisition of additional strategically located facilities to form a Countywide system. Expansion is also accomplished by use of Wholesale/Bulk Agreements and Territorial Agreements with other service providers.

Goals of the Department: 1) meet the growth demands of Marion County with efficient and cost effective utilities service; 2) provide quality customer service and communications to external and internal customers by offering them friendly and courteous service; 3) provide prompt and efficient service to all customers regarding billing inquiries, account information and service requests; 4) work diligently to make the transition of newly acquired private utilities to County utilities a friendly and pleasant experience to everyone; 5) maintain total professionalism throughout the Utilities Department.



## MARION COUNTY UTILITIES DEPARTMENT

### **FINDINGS AND RECOMMENDATIONS**

The Internal Audit Division, while performing this audit of the Utilities Department, made numerous site visits which provided opportunities to observe procedures and employee activities related to departmental operations. This was in conjunction with meetings and interviews with Department staff and management to determine and evaluate the Department's system of internal controls and procedures over interdepartmental billings, departmental services and functions, the safety of department personnel and the security of the department facilities. Pertinent documents and records were examined to determine Department's compliance with the County Code, general County policies and internal departmental policies and procedures. We also reviewed documentation submitted to, and prepared by, the Florida Department of Environmental Protection (the regulatory agency) to determine the relevant compliance issues.

In summary, we found that Department has accomplished its mission in an effective manner and that Management has initiated many enhancements to operations, some of which are already in process. Management has been working on a long-range plan for the utility, using consultants, to increase its service area and improve services.

We did find certain other opportunities for enhancement to administration and operations. The following findings and recommendations for enhancements came to our attention during our review. These were discussed concurrently with appropriate management and operating personnel as the audit progressed. The Utilities Director has made many significant changes and refinements over the past several months, with which we concurred. Many of these recommendations were implemented or planned for implementation by management before reviewing the initial draft of this report. We want to commend the Director and the many departmental personnel (management, operational and administrative) for their assistance and cooperation in the performance of our activities.

#### **OVERALL MANAGEMENT COMMENT:**

In general, the audit was performed with professionalism and evaluated our Department objectively in several areas including customer service, treatment operations and field operations. The staff of the Internal Audit Division spent much time with our Department and gained a thorough understanding of utility operations. Their analysis and feedback during the course of the audit has been very useful in assisting us to move forward. We have carefully evaluated the report and its recommendations and offer the related responses.

#### **I. DEPARTMENTAL MANAGEMENT AND OPERATIONS**

As an integral part of this audit, Internal Audit reviewed the performance of operations that provide services to the public. Our activities included physical observations of the various operations, the examination of supporting documents, and numerous conversations and discussions with Department personnel.

The Department has undergone many changes during the past few years. The County acquired the utility system in 1993 and operations were confined to the Silver Spring Shores area until 2001. Management and staffing appear to have been adequate for that service area. The Department significantly expanded

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its service area and customer base with the acquisition of the Decca systems in 2001. The recent purchase of Florida Water Services Corporation facilities has further expanded the Department to 21,065 customers, with services provided to several new areas. The Department, during the course of expanding its service area, required considerable financial and personnel resources to manage the resulting changes.

The Department has relied upon consultants in the past to assist in identifying its operational needs, including plant and equipment. In particular, there were substantial consultant activities performed in the recent acquisition of Florida Water Services. Further, in 2003, the Department selected a consultant (the combined firms of PA Consulting Group, CH2M HILL, Inc., and PB Water), based on its combined operational expertise, to conduct a performance assessment to “evaluate the effectiveness and efficiency of the utility operation in light of the rapid growth of the Utilities Department over the last two years.” The consultant will issue a separate report on its findings, conclusions and recommendations. This report is presently in draft form and is not yet finalized for publication.

The Internal Audit Division did not have considerable experience in evaluating the operations of such a specialized entity as this Department. To increase our knowledge, we were able to meet with the principals of the above consultant to discuss their study and preliminary results. We were also able to observe their activities concerning utility management and operations. We have incorporated some of the consultant’s work within our report and have placed reliance on the results of the study.

Many of our recommendations were derived independently of the consultant, but were confirmed by the consultant’s study. We therefore direct the readers to the related study. In summary, the consultants found that “the Utility’s management is well focused and motivated to continue on a track of steady growth, meeting customer expectations, and improving operations and services. Communications between management and staff is good, morale among the employees is high, and pride throughout the organization is sincere.” Further, compared to most other utilities, Marion County water system operations “fairs well, and can be considered to be somewhat competitively positioned among its peer utilities.” However, the presentation of wastewater system operations is somewhat mixed in its comparison to peer utilities. In general, the report is quite positive and shows the Department is competitive in its benchmarks in both water and wastewater operations, particularly in relation to the large size of the Department’s service area and the relative low density of its customer base.

The consultant’s draft report presented, in order of importance, detailed findings and several recommendations for improvements. Management may not agree with all recommendations, but already has implemented a number of the recommendations with which it agrees, and certain others are in process of implementation. We agree with the consultant’s overall opinions, and with most of the findings and related recommendations, and herein incorporate them in an consolidated recommendation.

**We recommend that** Management develop a clear response to the departmental management and operational challenges identified in the consultant’s report of the study by PA Consulting Group, CH2M HILL, Inc., and PB Water.

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**MANAGEMENT RESPONSE:** We Concur. During the last half of 2003, an independent consultant conducted a performance evaluation of the Utilities Department. Their final report has not yet been issued. However, many of the points made in the preliminary report are being addressed. We will further assess the final recommendations and prepare a response to the report. Those recommendations, which we believe are technically sound, financially feasible and can result in improved operating efficiency, will be implemented over time with a well defined plan.

The County expends considerable funds every year to operate its water and wastewater facilities and equipment, which can become increasingly more technologically complicated to operate and maintain. This may become of further importance due to the recent expansion of the Department through acquisition of other systems. Obtaining and maintaining fully qualified and trained employees to operate the systems are significant management responsibilities. We therefore incorporated personnel training in our review, which included conversations with management, administrative and operating employees concerning training needs and requirements. We also attended an employee workshop conducted by the above noted consultant in which there was some employee feedback concerning current training and future needs.

The Director has stated that training is important and develops annual budgets for continued employee training. The Director also encourages employees to obtain certifications in both water and wastewater operations. We suggest that a formal and published plan be devised for employee training, which would state the established criteria for training by employee classification. Professional training should be focused on maintaining or increasing the job knowledge of employees pertaining to their current duties, but could allow employees to further enhance their knowledge for other positions in the Department. It benefits the employees and County to have a plan in place to ensure that employees obtain ongoing technical training specific to their job duties and the particular types of technologies with which they work. Management should also ensure that managerial and supervisory staff are allowed or required to attend training courses or seminars that will enhance the performance of their job responsibilities.

**We recommend that** Management consider establishing a formal training plan for maintaining and improving the technical competence of Department personnel.

**MANAGEMENT RESPONSE:** We Concur. The Department strongly supports technical training and assisting employees in meeting the requirements for obtaining and retaining licenses and certifications. In this regard, our employees are encouraged to participate in workshops and training to improve their job skills. However, a formal plan that identifies the different classes and training applicable for each position is only loosely defined at present. Based on this recommendation, it is our goal to formalize a plan by having supervisory staff and employees work together to formulate a technical training program. We expect the effort to gather input, plan and implement a program to take approximately one year.

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### II. REGULATORY COMPLIANCE

The Department is in an industry that can have a significant impact on the surrounding local environment. The industry is therefore regulated by the Florida Department of Environmental Compliance (FDEP), as well as the federal Environmental Protection Agency (EPA).

We reviewed much of the documentation submitted to the FDEP by the Department and the inspection reports prepared by FDEP inspectors. We determined that the Department appears to be in compliance with applicable state regulations in all material respects. The few minor discrepancies noted during the inspections were timely resolved by the Department.

We also reviewed an email from a FDEP representative, who stated that the FDEP is impressed with the manner in which the Department has handled certain wastewater compliance issues. The Department has been requested to give a presentation in Tallahassee during February 2004 as part of a FDEP/FIPA workshop on pretreatment compliance/enforcement activities.

The subject of “environmental compliance” was a significant segment of the previously referenced consultant’s (PA Consulting Group, et. al.) report. The consultant’s opinion was that the Department’s rating was “best in class” when compared to the industry benchmarks used. The consultant noted the Department’s very good record of compliance, but cautioned that the utility’s growth will require more facility permitting and monitoring and adherence to more regulations not applicable to smaller entities. The consultant suggested the Department “initiate a more formal means of monitoring regulations and tracking compliance and permit renewals,” to include “develop a computerized permit tracking system” readily accessible to staff. The consultant further suggested the Department become active in certain “industry advocacy organizations.”

We agree with the consultant that the Department has recently experienced considerable growth and now has many more facilities to ensure environmental regulatory compliance. We believe that now is an appropriate time to review compliance issues and reporting needs and devise any enhancements to the present system.

**We recommend that** Management review the Department’s compliance issues and reporting needs arising from the recent growth, and devise any enhancements to the present system.

**MANAGEMENT RESPONSE:** We Concur. The Department’s record for reporting, permitting, sampling and addressing regulatory agency compliance issues has been excellent. There have been no enforcement actions or consent orders issued by the regulatory agencies which were due to non compliance on the part of our Department. Due to the growth of the utility, many systems have been added which significantly increase our sampling, monitoring and reporting requirements to the regulatory agencies. With this in mind, we plan to develop an electronic data base which will include permit numbers, expiration dates and reporting requirements for all water and wastewater treatment plants. We expect to implement this plan in approximately six months.

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### **III. DEPARTMENTAL OPERATING POLICIES AND PROCEDURES**

The general rules and regulations of the Utilities Department are established by Marion County Code, Chapter 19. The County Administrator and Utilities Director are responsible for developing and maintaining operating rules and regulations. The Department is subject to the approved Policies and Practices Employee Manual and the procurement policies established pursuant to Chapter 2, Article VII, of the Marion County Code.

There are operational differences among the services performed and the various types of facilities within the Department. There is no centralized location that is maintained for the many technical manuals, documents and rules and regulations for the different operations. Management has opted for maintaining such pertinent technical documents and operational information at the specific facility. The Director is considering consolidating, in the new main office, the many technical documents and operating manuals within a "technical resources library". We agree that this is appropriate and suggest that the "library" be established before or shortly after the move into the new premises, anticipated during 2004.

Management has prepared and issued numerous internal procedures and guidelines to manage this large department. There is no comprehensive source, such as a procedures manual, that includes all significant internally generated departmental operating rules, regulations, policies and procedures.

Comprehensive operating policies and procedures can: help ensure that Management's directives are available to, and understood by, applicable personnel; and provide the basis to determine accountability, measure results and enforce compliance. We therefore suggest that comprehensive written policies and procedures be developed, to the extent practicable, in a departmental manual that includes all significant issues concerning Department operations and personnel. This manual would not have to include technical documents of each operating facility. Management could explore placing the completed manual on its intranet website to provide another access source for employees.

**We recommend that** Management consolidate official departmental policies and procedures into a comprehensive departmental internal procedures manual, and continue with the plan to develop a technical resources library.

**MANAGEMENT RESPONSE:** We Concur/Action Plan in Progress. Utilities requested further clarification of this recommendation in a January 2004 meeting with the Internal Audit Division. The recommendation is to formalize operating procedures not addressed in the Employee Handbook. We also understand that this recommendation is meant for our field and treatment staff as Recommendation No. 8 appears to be a similar recommendation for our office staff. Operation and maintenance manuals exist at each treatment facility for the use of operators and field staff.

Our plan is to have an additional copy of each operating manual available in a central location. When Utilities moves into its new building in late 2004, space will be available for a library where our technical manuals will be indexed and available for all employees as a reference.

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### **IV. OPERATING REVENUES**

The Water and Wastewater Utility Rate Ordinance #96-37 allows the general rates (principally the Silver Springs Shores service area) to be automatically increased each year, effective October 1, without further BCC approval. The rates “shall not exceed the consumer price index as published by the University of Florida, Bureau of Economic and Business Research (Jacksonville Region) or another price index factor adopted by the Board.” Further, “the index adjustment shall not exceed 4.5% during any fiscal year”. We noted that the University of Florida price index no longer exists, and that the Department states that it uses the consumer price index (CPI) published by US Department of Labor, Bureau of Labor Statistics (BLS). This is an appropriate measurement resource; we agree that another price index is needed and therefore suggest that the Department obtain the required approval from BCC to revise the Utility Rate Ordinance.

The Silver Springs Shores area customer rates were increased by 2% and were timely applied to customer bills. This percentage increase did not exceed the CPI as published by the BLS. We tested the rate increases for FY2003 and found they were correctly calculated.

The Department expanded its service area in 2001 when it acquired a number of customers in the Pine Run and Oak Run communities. The customer rates at that time were less than the general rates. Resolution #01-R-26 recognized this and established a phased-in rate schedule that will result in these rates matching the general rates in 2005.

We reviewed the Pine Run and Oak Run rates and determined that they agree to the relevant rate resolution. We tested the rate increases and found they were correctly applied.

**We recommend that** Management present to BCC for approval of its suggested method for calculating increases in water and wastewater rates.

**MANAGEMENT RESPONSE:** We Concur/Action Plan in Progress. The Utility Ordinance presently calls for annual indexing of water and wastewater rates based on an index which no longer exists (University of Florida, Bureau of Economic and Business Research –Jacksonville Region). The Ordinance allows the use of another index adopted by the Board. Utilities now uses the Department of Labor, Bureau of Labor Statistics Consumer Price Index. In March of 2004, revisions to the Utility Ordinance will be considered by the Board of County Commissioners and the new ordinance will incorporate the Bureau of Labor’s Consumer Price Index.

There are provisions by Ordinance for rate increases for most of the fees charged by the Department. There are, however, certain other fees and charges that were established by the 1996 rate resolution that have not been subsequently changed. These include “water meter installation charges, annual fire line charges, inspection fees, late payment fees, and reconnection charges” as described in Rate Resolutions #96-R-312 and #01-R-26.

**We recommend that** Management review all rates that are not automatically changed each year to identify those that should be proposed for adjustments.

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**MANAGEMENT RESPONSE:** We Concur/Action Plan in Progress. During the course of the audit, Utilities was in the process of reviewing fees for services. The Utility Ordinance revisions to be considered by the Board in March 2004 include changes to fees which need to be adjusted based on the present cost of materials and labor. These include meter installation fees, construction meter deposits and re-connection fees.

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### **V. ACCOUNTS RECEIVABLE BILLINGS AND COLLECTIONS**

A significant component of our review was reviewing Department accounts receivable procedures. These included the actual processes for determining billable quantities, preparing cyclical billings, customer collections, and accounts receivable accounting, including uncollectible accounts.

There were approximately 10,800 customers as of January 2003. The number of customers significantly increased to approximately 21,000 customers with the acquisition of the Florida Water Services utilities in the south part of the County. We noted that as of August 31, 2003, the Department had accounts receivable in the amount of \$381,818.79. Included in that amount is \$64,420.03 in past due accounts, of which \$49,737.21 was over 90 days past due. This amount represents 13% of accounts receivable. The County has established a reserve for uncollectible accounts at September 30, 2002 of \$30,000. It is likely that this amount will be increased at fiscal year end of September 30, 2003.

The Department has purchased and maintains a vendor-developed computer system (UMS2000) that performs customer billing, accounts receivable recording and customer payments. The Department employs a hand-held meter reading system that is used to upload meter readings directly into the accounts receivable system. The billing and meter reading systems had been used by the Department for several years and were able to handle, with some difficulty, the acquisition of the Decca facilities in 2001. These systems have been very serviceable, but it seems that such resources may be strained with the recent Florida Water Services acquisitions. The Department should consider systems with enhanced technology to ensure that the customer accounts receivable billing and collection functions are adequate for the next several years.

The Department has considered additional options to improve its accounts receivable billing and collections in light of the current major service area expansion. One consideration was the contracting with a vendor to provide "lock box" services, with which we concur. We believe the Department has appropriately identified the integral needs and operations of the lock box services. Such services involve the collection of customer payments after customer bills are mailed by the Department. Customer payments by mail are sent directly to the lock box vendor, who opens the envelopes, records the amounts received, deposits the collections and forwards the amounts to the Department, along with appropriate accounting. In addition, the Department has contracted with a mailing firm to print and mail the customer bills. Privatizing these two important services should result in increased efficiency in the Accounts Receivables area and should reduce the demands on existing staff, as well as decrease the need for additions to full time staff.

The Department performs its accounts receivable/customer billing procedures well. A customer whose bill is not paid by the last day of the billing period, and who has made no payment arrangements in advance, has service cut off until payment is received. A reconnect fee is also charged for turning service back on. However, this does not work for all customers who, for example, have left the area. We believe that further collection efforts on such difficult accounts can be enhanced. First, the Department should establish a policy for routine turnover of such accounts to a collection agency. At present, the County has a contract with Gila Corporation, d/b/a Municipal Services Bureau, to perform certain collection services, principally for court fines and costs. We believe this contract could be utilized by the Department, after review and approval from Bureau Chief and County Administration, and perhaps after review by the County Attorney. After this policy is established, the Department should recommend to the Bureau Chief and County

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Administration which customer accounts be turned over the collection agency. We noted in our research that at least one governmental utility, Gainesville Regional Utilities, specifically allows for delinquent accounts over 60 days to be referred to a collection agency.

The Department should be able to readily identify the accounts deemed not collectible and submit them for recording as "Uncollectible Accounts" on a routine basis. This will help ensure that the accounts receivable listing at any time accurately reflects accounts that may actually be collected. The above collection agency should be requested to pursue collection regardless of whether the County should write off the accounts receivable amount as a bad debt. County Administration should consult with the County Attorney to determine if BCC approval must or should first be obtained before any accounts receivable can be written off. Even if not needed in advance, such information on write-offs should be submitted to the Board as an information item on a BCC meeting agenda.

Many of the uncollectible accounts have a customer deposit collected that would be available to reduce the amount of any loss on collection. The customer deposit amounts have not changed in many years. In order to reduce the potential losses on uncollectible accounts, each customer deposit should be revisited, with the goal of determining sufficiency. The present residential water and wastewater customer deposits are \$40 and \$80, respectively. The minimum deposits for commercial water and wastewater accounts are \$45 and \$90, respectively. In order to reduce the amount of uncollectible accounts, the County should consider revising the amounts to better reflect the average exposure of uncollectible accounts for at least two months of service. Further, the Department should enforce the Code provision that allows the County to require customers with a poor payment history, especially those without a current deposit, to pay an additional or increased customer deposit as a condition for continued service.

We reviewed other issues pertaining to accounts receivable and offer some suggestions for easier account set up and collection. Presently, a new customer must pay a customer deposit if he/she cannot provide a "letter of credit" from a previous utility provider, which shows that the customer had maintained a good payment history. Such payment is required by a check. The Department should pursue whether customer deposits could be collected by credit card.

In addition, customers may pay their bills by check, cash or money order, but are also allowed to pay automatically each month by "bank drafts" if they elect this option. We believe payment options could be enhanced by allowing payments to be made by credit card, even if only for the purpose preventing a service cut-off and/or paying reconnection fees to ensure faster turn on of service. This would provide another available customer service and may reduce the number of disconnections and reconnections, which might result in more efficient operations at a reasonable cost. The Department should explore whether a separate charge should be added if the credit card option can be made available.

We had discussed with the Director the possibility of utilizing the Internet website to include the capability of accepting credit cards for payment. The Department has worked with Finance to accomplish this, and the service is presently being provided to customers on the Department's website.

The Department is considering an enhancement to assist in determining if a customer deposit should be required of a new customer. As previously mentioned, a deposit is required unless the customer can

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provide a “letter of credit” from a previous utility provider. The Department is investigating another method to determine customer credit worthiness, which is subscribing to a credit reporting service such as Equifax. We believe this is a reasonable approach to further ensure a good paying customer base with fewer uncollectible accounts. We suggest that the Department continue exploring the benefits that may be proved by using a credit reporting service to identify customers who will not be charged the customer deposit.

**We recommend that** Management consider the identified improvements to accounts receivable collections and billings. These include:

- Acquire new customer accounts receivable/billing/collection system.
- Turn over past due, uncollectible accounts to collection agency on a routine basis.
- Readily identify uncollectible accounts and submit (through channels) those accounts for write off from official financial records.
- Increase amounts of customers deposits.
- Ensure that a delinquent customer is required to pay a customer deposit (if customer does not currently have one.)
- Investigate acceptance of credit cards for payment of customer deposits.
- Investigate acceptance of credit cards for payment of past-due amounts, especially to reduce instances of disconnections.
- Continue investigation of using a credit reporting agency to better evaluate new customers.

**MANAGEMENT RESPONSE:** We Concur/Action Plan in Progress. This recommendation consists of eight parts:

1. While we believe the Accounts Receivable/Billing/Collection system in use is adequately serving our needs, we recognize that it is an older system. Our goal is to use in-house staff or a consultant to investigate the newer technologies for possible use in the future. We expect to perform the analysis in approximately eight months.
2. We believe that turning over past due accounts to a collection agency is appropriate and we will work with Finance to implement over the next few months.
3. Write off of uncollectible accounts is also a procedure we will work with Finance to implement over the next six months. After discussing with Internal Audit, we feel that this should be done every 180 days.
4. The Utility Ordinance gives us the ability to increase deposits and we will review periodically to ensure that a deposit will offset a delinquent account.
5. The Utility Ordinance gives us the ability to re-instate a deposit for a delinquent customer. We will review accounts periodically and implement as necessary.
6. Within a year, we expect to accept credit card payments for customer deposits; however, there are some issues with Finance that will have to be resolved on accepting and posting deposits by

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credit card.

7. We are now accepting credit card payments for past-due accounts.

8. We agree that using a credit reporting agency to better evaluate new customers should be pursued and we will work with Finance to implement in about six months.

Our observations disclosed the complexity of customer billing and cash collections, as well as operating and maintaining the computer system. Present customer service and administrative staff are well trained and familiar with these aspects. We did note that there is no comprehensive manual that maintains the numerous procedures, guidelines and instructions for customer billing and collections. We believe that such a document could have benefits in the future, especially in an expansion period, and should be devised and maintained to ensure that management's instructions are included and updated routinely.

Our review disclosed that administrative and customer service staff involved in accounts receivable billing and collections have a high level of performance and accuracy. We did note a very few exceptions in our review of cash controls, cash collections and accounts receivable recording which could be addressed in the proposed manual. These exceptions have been discussed with Department personnel and are not listed here since none were material, but could be used as examples in developing a manual. The proposed manual would be separate from the internal departmental manual recommended in an earlier report section.

**We recommend that** Management consider developing a separate manual for customer service personnel, to include the numerous procedures, guidelines and instructions pertaining to customer billing and accounts receivable.

**MANAGEMENT RESPONSE:** We Concur. In checking further with our customer service supervisor, there are manuals which partially address office operating procedures. These manuals can be updated and consolidated for use by our office staff. We expect that it can be accomplished within six months.

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### **VI. EMPLOYEE/PERSONNEL ISSUES**

The Utilities Department had 32 total employees before the Florida Water Services acquisition. After the acquisition, there are now 49 employees: 37 in operating positions and 12 in management/administrative positions. See Attachment 'A' for the Department's organizational structure.

As part of our activities, we were able to observe some of the working relationships of Utilities personnel among themselves and with supervisory personnel. We did not spend considerable time on this activity, but our impression was that there is at least an adequate working relationship. This was confirmed by the consultant's report previously referenced. We did attend a workshop held by the consultant that included many operating, administrative and supervisory personnel. The comments and opinions of the personnel seemed to be freely given and appeared indicative of a good working relationship.

The recent Florida Water Services acquisition has necessitated additional positions and organizational restructuring. The additional personnel and responsibilities of the South division, in addition to the East and West divisions, can impact the respective duties of the Utility Operations Supervisor, the Utilities Construction Supervisor and the Utility Administration Manager. The full impact of this acquisition on personnel matters has not yet been determined. To ensure continued effectiveness, Management should be prepared to devise further changes to personnel staffing and duties. This could include establishing a time line, with decision dates, to re-evaluate personnel staffing, responsibilities and workload. This plan should allow for an adequate period of time to evaluate the new changes arising from the acquisition.

**We recommend that** Management establish a plan to evaluate and ascertain whether any further changes to personnel staffing and duties are required.

**MANAGEMENT RESPONSE:** We Concur. This recommendation is particularly significant in light of the Florida Water Services (FWS) acquisition. Utilities prepared a preliminary budget and hired staff and equipment based on estimated FWS revenues and expenses. We have identified two areas that appear to require staff over and above what was projected (Utility Mechanic & Customer Service). We are presently using temporary workers to fill the void. During the next budget preparation period, we will have the benefit of about five months of operating revenues and expenses with FWS on line. At that point, we feel confident that we can make the necessary adjustments to our staff.

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### VII. CONSULTANTS

The Utilities Department has incurred significant expenditures for two consultants to provide assistance on many important acquisition and operations matters. We discussed this issue with the Director, at the beginning of our audit, and whether it would be beneficial to expand the pool of consultants. The Director stated that these consultants are well-known specialists who have prior experience with the County, which results in efficient use of funds. The Director did state that there may be opportunities to have other consultants bid for small projects not requiring the specific expertise of the existing consultants. He promptly thereafter took actions to prepare a Request for Qualifications for other consultants. This was accomplished when, on June 17, 2003, BCC approved the agenda item for these additional consultants. We commend the Director for such prompt actions. It is as yet too early to determine just how well this expanded roster of consultants will work, so management will have to ascertain if this new process is working as expected.

**We recommend that** Management continue to review the issue of consultants usage to ensure that funds for consulting are used cost effectively.

**MANAGEMENT RESPONSE:** We Concur/Action Plan in Progress. Although we agree with the recommendation, Utilities does periodically evaluate, and will continue to do so, our use of consultants. This has resulted in some adjustments on our use of consultants. We recognize that as the Utility grows we can economically justify a small engineering division within Utilities to handle things such as permit renewals, design of line extensions, construction inspection, preparation of system atlases etc.

Steps taken over the last year to achieve this goal were the hiring of a construction inspector and engineering technician. The construction inspector has reduced our reliance on consultants in the area of construction contract administration. The engineering technician will begin the preparation of water and wastewater system atlases once Utilities relocates to the Blockers Building. Presently this is being performed by consultants. We will be setting up the software and plotter necessary to accomplish this at our new location. The next step in the process is to hire a Utilities Engineer; however, the appropriate timing is about two years out as the Utilities Director is a registered professional engineer and can handle these duties for the short term.

To reduce consultant costs, we have brought on board two local firms for performing work which is routine in nature and does not require the expertise of our primary consultant. We have accomplished cost savings in areas such as surveying, minor water and wastewater projects, preparation of system atlases and site engineering projects. This is primarily due to a savings in the cost of travel time, researching local records and coordination.

As we move forward, we will continue to develop our in house engineering capabilities and use local consultants effectively. However, there are areas where the experience of national and state experts will be required. Such projects will include master planning, major treatment plant additions and expansions, complex permitting, and technical and legal support for utility acquisitions. These are areas where it is not cost effective to hire and retain in-house staff to perform these functions.

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We reviewed the payments to various consultants and compared to the original agreements. We noted that one consultant agreement needs further review.

Hartman & Associates is the principal engineering firm used by the Department. Hartman has been used extensively on the significant water and wastewater projects, including consulting on the recent Florida Water Services acquisition. A considerable amount of money has been expended on the numerous projects. We reviewed the Professional Engineering Services Agreement and determined the following.

The current Agreement is dated April 4, 2000 and has no termination date. The Agreement states that each project "...fee shall have a not to exceed figure based on hourly compensation." We noted that some projects were priced with a "not to exceed hourly upset limit" of a certain amount, with no attachment or description of compensation basis or how calculated.

The Agreement includes an Attachment 'A' (Hourly Rate Schedule) which discloses the approved hourly rates, which were effective as of December 23, 1999. The Agreement states that "the basis for computing the payment due shall be direct number of hours times the hourly rate contained in Consultant's Fee schedule...as shown in Attachment A." Our review of project work proposals and related invoices disclosed that different (higher) rates have been charged or were included in the proposed fee of certain projects. Further, there are differences in positions described in consultant invoices and project proposals than those listed in Attachment 'A', which made it difficult to compare the rates.

The Agreement does state that the listed hourly rates "...may be adjusted annually upon approval by both parties." This may have occurred, but we found no documentation that this annual approval was accomplished, particularly formally. However, there is no specified method in the Agreement to document such approval.

Management will need to review project work orders and invoices previously paid to determine if the amounts charged conform with the Agreement. Management should also ascertain whether the possible annual adjustments have been agreed to by both parties for rate increases since April 2000. Finally, Management should determine whether the Agreement should be renewed and, if so, whether the Agreement should include an amendment process to formalize any negotiated annual rate increases.

**We recommend that** Management review the issues raised concerning the identified consultant agreement and clear any material exceptions.

**MANAGEMENT RESPONSE:** We Concur. In reviewing Hartman's Agreement for Professional Services, we did not see an escalation clause for the hourly rates. In the next 30 days, we will discuss with the consultant the hourly rates. As the Agreement was executed over four years ago, I would expect an increase in hourly rates but it needs to be formalized within the framework of our agreement.

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### **VIII. INVENTORY AND PURCHASING CONTROLS**

Internal and operating controls over inventory assets (parts, tools and equipment) and general departmental purchasing procedures were an important component of our review. We examined inventory records, purchasing and expenditure documentation, inventory control procedures and financial records. The Department's physical inventory of operating parts and supplies was included in the FY 2002 and FY 2003 physical inventory activities (see audit reports 2002-03 and 2003-08) conducted by Internal Audit.

In general, we found that the responsible personnel performed their duties appropriately. We further found that inventory and purchasing controls were adequate, but that some enhancements could be made. The consultant report showed that inventory control was generally considered by Department operating personnel to be of low importance and therefore it was given low performance. We believe that this matter should be assigned greater importance and that further attention is needed to inventory control, including tools and equipment.

Parts and chemical supplies are not located in one storage area, due to the large service area and number of facilities. Much of the parts are in fact stored on the service trucks to ensure their availability when required. Management should consider if, in the future, there can be a centralized storage area that is adequately secured and readily available to service operating needs. At a minimum, the inventory stock on service trucks should be closely controlled, and formally inventoried at least twice a year. The item counts and amounts should be checked (for prices, extensions, reasonableness of quantities, etc.) by someone else not involved in the counting and reconciled to the purchasing and financial records.

We noted that work orders for repairs are not fully costed out to disclose the actual cost of service. Further, we believe that some work orders do not record all parts that may have been used.

Because of the complexity that occurs when organizations expand quickly, it is necessary to develop more effective inventory controls and costing procedures. This would provide better management control and effective usage of resources.

**We recommend that** management consider these identified enhancements to inventory controls and purchasing procedures.

- Perform complete physical inventory of operating supplies (parts, meters and chemicals) at least twice annually, then reconcile to financial records.
- Consolidate to the extent practicable the operating parts and supplies inventories.
- Require work orders to be complete as to parts and supplies used and related costing.

**MANAGEMENT RESPONSE:** We Partially Concur. We are in agreement that inventory controls and purchasing procedures need further improvement. Inventory is taken twice a year and conducted by our construction supervisor with the assistance of field staff and our materials supplier. Currently we are investigating software packages, one of which is used by the Facilities Department, which are designed to assist us in maintenance management and inventory tracking. It is believed that such a package would greatly enhance our ability to track and reconcile financial records. We are moving cautiously as we want to be sure that we select the system that best meets

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our needs. Our goal is to have a system in place in about one year.

With regard to consolidating operating supplies and parts in one central location, it would not be practical as it would increase response time to make emergency repairs due to our large service area. It is imperative in the utility business to provide customers with adequate and dependable service. At times, water mains break and sewers back-up. These are health and property damage issues which require quick response. Parts and materials need to be available in proximity to our different systems. With this in mind and considering Internal Audit's recommendation, we would suggest that our goal be to consolidate materials and supplies in three locations. One location is our existing storage facility in Silver Springs Shores to serve the eastern sector of the County. The second location will be at the Marion Oaks Utility Site. The Series 2003-A Utility Revenue Bond contains funds to construct a storage facility, office and staging area for our staff in the western sector. The drawings for this facility are presently being prepared. We expect this facility to be constructed in about one year. We are now looking for a location in the South end of the County to provide service to the newly acquired Spruce Creek County Club, Stonecrest and Spruce Creek South systems. These three systems have over 4,000 customers, so a facility in proximity to these developments is required.

With respect to work orders, we believe the system already in place can provide the information recommended. It is a matter of training our field staff to do a better job of reporting the parts and supplies used on the work order form. This can then be entered into our proposed maintenance management system to better track the use of parts and supplies and their related cost. This task will take about one year to accomplish.

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### **IX. FACILITY SECURITY AND EMPLOYEE SAFETY**

Our review included the evaluation of facility security and employee safety. To accomplish this, we performed observations of facilities and working conditions of employees. We also discussed work place safety procedures with operating personnel, and completed our review with discussion with Risk Management.

In general, we believe facility security is adequate and appropriate; however, we did have some questions whether the Department facilities were adequately protected against acts of terrorism. During our tour of operating facilities, we were alert to the security features in place and became assured that such security was at least adequate, especially concerning minimizing opportunities for theft and vandalism. This was most true in comparison to potential for theft and vandalism to potential costs to increase security. The federal "Public Health Security and Bioterrorism Preparedness and Response Act of 2002" imposes certain requirements on each utility, depending upon its size and other factors. One important requirement of the Act is preparation of a "vulnerability assessment" and submission to the federal Environmental Protection Agency. According to the consultant's draft report, which also raised this issue, the County must complete this task by June 30, 2004. This requirement is in addition to the established disaster preparedness plan, and the Department may need additional resources to accomplish this important compliance task.

We also observed that security at the present administrative and business office building has some weakness. The building is locked and alarmed during non-business hours. However, during the business day, there is relatively easy access through the rear doors. This is substantially mitigated because there are a number of employees who would readily observe the entrance of an unauthorized individual. We are making no recommendations for the present facility, since this building will be closed when the Department moves to its new office in Ocala in 2004. We do suggest that Management thoroughly review the need for increased security at the new building to limit non-employee access to only authorized areas and to further protect the employees, equipment and cash assets involved in customer relations and the collecting and handling money.

Facility security is of course an ongoing concern of Management, who is responsible for appropriate actions to prevent or minimize the probability of adverse acts against personnel and assets. Management has stated that appropriate actions will be taken.

**We recommend that** Management maintain facility security at operating plants and administrative/business office, and enhance as needed to comply with required rules and regulations, particularly the Public Health Security and Bioterrorism Preparedness and Response Act of 2002.

**MANAGEMENT RESPONSE:** We Concur/Action Plan in Progress. The Public Health Security and Bioterrorism Preparedness and Response Act of 2002 requires utilities to conduct a vulnerability assessment. This assessment will be submitted by Utilities to EPA by the June 2004 deadline. As a result of this law, we have begun taking steps to reduce vulnerability. Several of our employees

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have taken training classes being offered by the regulatory agencies and the various trade organizations.

Some additional measures already taken include the repair of fencing around water plants and maintaining security lighting. The Sheriff's Department now has a list of all water plants and we understand that deputies and/or crime watch staff visit our facilities periodically. As recommended by Internal Audit, Utilities will implement security measures in our new administration building to limit access by non-employees.

Employee job safety seems to be a significant management priority. We observed that employee safety appears adequate in general.

We believe that the employees are adequately safety conscious and have appropriate knowledge about personal safety issues and procedures. They appear to follow applicable safety precautions and are given adequate tools and safety-related equipment. However, the consultant's draft report raised the issue that the Department's occupational injuries (whether or not resulting in employee lost time) are 60% higher than the benchmarked industry average. There was no explanation provided.

We discussed with Risk Management this issue of occupational injuries and employee accident reporting procedures, with specific regard to the Department's employee safety by the type of work performed. Risk Management expressed no particular concerns with the Department's injury rate. Further, the Department's injury rate does not appear exceptional and conforms closely with the City of Ocala's utility department. Reported injuries are generally of a routine and expected nature (pulled muscles, scrapes, scratches, etc.) and most of which did not require medical treatment other than a visit to the clinic or Express Care. Absent other information on benchmarks used by the consultant, it seems possible that the County and City are more diligent in ensuring all potential injuries are timely reported, even if no lost time is involved. However, although there does not appear to us to be a problem regarding occupational injuries, we do suggest that Management perform its own analysis and research on this issue to determine if there is a problem requiring remedial action.

**We recommend that** Management pursue the consultant's assertion that Department occupational injuries appear to considerably exceed the benchmark industry average.

**Management Response:** We Concur. We agree with Internal Audit's statement that Risk Management has expressed no particular concerns with our safety record and injury rate. We have discussed this with our performance evaluation consultant and we believe that our high injury rate is due to accurate reporting of any and every "on the job" incident, even though very few result in lost work time or medical expense.

The Utilities Director informed us of a significant safety-related issue that had been under consideration by the former Public Works Bureau Chief. This involved the creation of a "safety officer" position which, if approved by BCC, would be responsible for bureau-wide (particularly Utilities, Solid Waste, Fleet) safety training and inspections. This position would also be available to assist the bureau's departments with

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employee training needs. This would include determining and recommending which professional, educational or technical courses or seminars are needed to benefit the operations of the departments, as well as monitoring the results of the training by individual employees. We believe that Management's increased emphasis on safety is appropriate and commendable and that the safety officer position has merit. We therefore suggest that Management continue its consideration of both.

During our meeting with Risk Management, we discussed general employee safety issues. We were told that Risk Management was trying to provide annual safety inspections of certain County departments, but staffing conditions have necessarily resulted in more extended periods between such inspections. Further, there is a County-wide Safety Advisory Committee that has been mostly inactive for a period of time, but Risk Management hopes to make it a more active committee sometime in the future. Risk Management also offers a "General Safety Training Program," which is a four hour course that trains a department employee, who then returns to the department to train co-workers.

Risk Management has offered to assist the Public Works Bureau or any of its departments to design the safety officer position or safety training program and to determine or assist in writing the necessary policies and procedures. We suggest that Management accept Risk Management's offer should the position of safety officer be further evaluated. At a minimum, Management could confer with Risk Management to determine which of its available services, referenced above, would benefit the Department's current and future needs.

**We recommend that** Management pursue its contemplated additional safety issues, including creation of a safety officer position and working with Risk Management to provide additional safety functions.

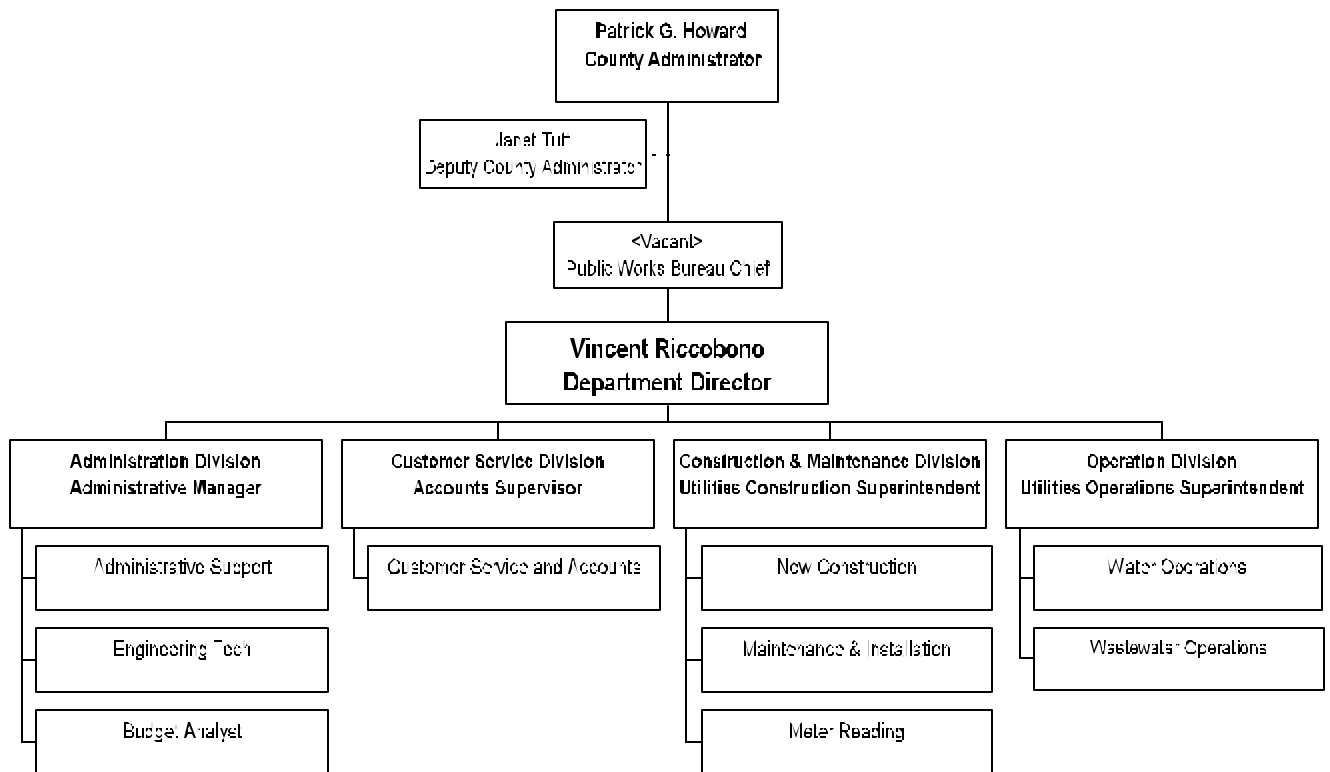
**Management Response:** We Concur. Safety is emphasized and we have employees participate in available safety training. In this year's budget, the previous Public Works Bureau Chief authorized a safety officer position to be assigned to the Engineering and Roads Department. We hope to utilize that person on a limited basis in Utilities. If that is not practical, we have had discussions with Solid Waste on the possibility of sharing a safety officer, possibly in the FY 04/05 budget year.

It is our position that the safety officer position is the key to our ability to work safer. We envision that the safety officer would keep abreast of the Federal & State regulations, conduct and/or arrange for various training and observe our work crews and facilities. Safety on the job can only be attained with the support of management, the monitoring of our operation, continuous input from and feedback to our employees and training. We believe that a full time safety office is needed to accomplish this and we will work with Administration and Human Resources to get a position established if the safety officer assigned to Engineering is not available to us.

# MARION COUNTY UTILITIES DEPARTMENT

## ATTACHMENT A

### DEPARTMENTAL ORGANIZATION



# MARION COUNTY UTILITIES DEPARTMENT

## ATTACHMENT B

### UTILITIES DEPARTMENT FINANCIAL ANALYSIS

#### **Comparison of Statement of Revenues, Expenses and Changes in Retained Earnings for Fiscal Years 2003-1999**

	(Unaudited) FY ended Sept.	FY ended Sept. 30, 2002	FY ended Sept.30, 2001	FY ended Sept.30, 2000	FY ended Sept.30, 1999
Total Operating Revenues	6,943,977	6,100,484	4,242,831	2,962,525	2,785,026
Total Operating Expenses	4,730,255	4,131,423	3,654,084	2,137,431	2,115,590
Operating Income (Loss)	2,213,722	1,969,061	588,747	825,094	669,436
Total Nonoperating Revenues (Expenses)	(1,606,992)	(1,447,295)	(848,143)	(471,735)	(520,253)
Income Before Contributions & Refunds	606,730	521,766	(259,396)	353,359	149,183
Contributions & Refunds	(12,537)	(431)	0	0	0
Change in Net Assets (a)	\$594,193	\$521,335	(\$259,396)	\$353,359	\$149,183

(a) Terminology and presentation changed during FY2002. Terminology was "Net Income (Loss)" in previous years.