



*METROPOLITAN GOVERNMENT OF NASHVILLE AND
DAVIDSON COUNTY*

INTERNAL AUDIT SECTION

Professional Audit, Advisory, and Consulting Services

AUDIT REPORT

Financial Control and Compliance Audit of Metro Water Services

Date Issued: August 18, 2006

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METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

INTERNAL AUDIT SECTION

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**METROPOLITAN
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August 18, 2006

Mr. Scott Potter, Director
1600 Second Avenue North
Nashville, Tennessee 37208

Report of Internal Audit Section

Dear Mr. Potter:

As requested by The Metropolitan Davison County Council through Resolution No. RS2004-644, we have completed a financial control and compliance audit, which follows the procedural standards of a performance audit, of Metro Water Services ("MWS"), focusing on customer billing and collections. *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States define performance audits as follows:

Performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits provide information to improve program operations and facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and improve public accountability. Performance audits encompass a wide variety of objectives, including objectives related to assessing program effectiveness and results, economy and efficiency, internal control, compliance with legal or other requirements, and objectives related to providing prospective analyses, guidance, or summary information.

A performance audit is different than a financial statement audit, which is limited to auditing financial statements and controls, without reviewing operations and performance. Internal control objectives relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and the system put in place for measuring, reporting, and monitoring program performance.

Auditors' Responsibility

In order to maintain and broaden public confidence, auditors need to perform all professional responsibilities with the highest degree of integrity, professionalism, and objectivity when dealing with audited entities and users of the auditors' reports. Additionally, auditors should be

honest and candid with the audited entity and users of the auditors' work in the conduct of their work, within the constraints of the audited entity's confidentiality laws, rules, or policies.

Service and the public trust should not be subordinated to personal gain and advantage. Auditors should be objective and free of conflicts of interest in discharging their professional responsibilities. Auditors are also responsible for being independent in fact and appearance when providing audit and attestation services. Independence precludes relationships that may in fact or appearance impair auditors' objectivity in performing an audit or attestation engagement. The maintenance of objectivity and independence requires continuing assessment of relationships with the audited entities in the context of the auditors' responsibility to the public.

In applying *Generally Accepted Government Auditing Standards*, auditors are responsible for using professional judgment when establishing scope and methodologies for their work, determining the tests and procedures to be performed, conducting the work, and reporting the results. Auditors need to maintain integrity and objectivity when doing their work to make decisions that are consistent with the broader public interest in the program or activity under review. When reporting on the results of their work, auditors are responsible for disclosing all material or significant facts known to them which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal improper or unlawful practices.

Management's Role

MWS process owners and managers are entrusted to properly manage the resources under their control. To meet their obligations, MWS process owners and managers are responsible for:

- Applying those resources efficiently, economically, effectively, and legally to achieve the purposes for which the resources were furnished or the program was established;
- Complying with applicable laws and regulations, including identifying the requirements with which the entity and the official must comply and implementing systems designed to achieve that compliance;
- Establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively, and are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed;
- Providing appropriate reports to those who oversee their actions and to the public in order to be accountable for the resources used to carry out government programs and the results of these programs;
- Addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations; and
- Following sound procurement practices when contracting for audits and attestation engagements, including ensuring procedures are in place for monitoring contract performance.

Department Overview

MWS is an Enterprise Fund operating within Metro government. Enterprise Funds are used to account for the operations of self-sustaining agencies rendering services to the general public on a user charge basis. In general, Enterprise Funds account for plant and equipment as well as current assets, long-term debt as well as current liabilities utilizing the full accrual basis of accounting. The mission of MWS is to provide drinking water, wastewater treatment, and stormwater management services to the community so all can enjoy a vital, safe, and dependable water supply and protected environment. MWS supplies drinking water to customers in Davidson County, as well as parts of Rutherford and Williamson counties from both the K. R. Harrington and the R.L. Lawrence (Omohundro) Water Treatment Plants. Wastewater is treated at any one of their three wastewater treatment plants: Central, Whites Creek, and Dry Creek. These facilities serve customers in Davidson and parts of Sumner, Robertson, Wilson, Rutherford, and Williamson Counties.

MWS consists of seven departments consisting of multiple divisions. A brief description of each is listed below:

Customer Service

The Customer Service Center function of MWS is responsible for contracting, setting up, and maintaining customer accounts. Each month, phone representatives answer approximately 22,000 calls and the automated service responds to approximately 32,000 with only a four percent abandonment rate. In addition to maintaining customer accounts, in excess of 6,000 water meters are read per day and some 6,000 bills are sent to the customers each day. The main focus of our work was reviewing the customer billing and collection process. MWS has designated within the Customer Service Center function six programs all related to customer billing and collections. Since we focused mainly on the Customer Service line of business, we have provided a brief summary of each program:

Permits/Customer Connections Program

The Permits/Customer Connection Section provides service to internal and external customers in all phases of location and connection to the public water and sewer mains maintaining established compliance. They provide these services to an average of 8,000 walk-in and over 24,000 phone customers each year. The Permits staff is responsible for issuance of permits, collection of appropriate fees, plans review for new construction, field inspection of meters installed, scheduling and inspection of new taps, location/availability of service, and new customer account creation. Their performance is measured by the percent of customers permitting and billed within expectations, dollar number of fees collected, and location information researched. Their process interfaces and supports the Engineering, System Services, Customer Service Center (“CSC”) Field Activities, CSC Phone and CSC Billing sections within Metro Water Services. They also interface with the Codes Department permitting process. This section issues an average of 12,500 permits and collects 6 million dollars in related fees each year.

Meter Reading Program

The Meter Reading Program provides meter readings to billing and collections so they can provide utility customers with accurate and timely bills.

Billing and Collections

Billing and Collections provides billing information to utility customers and collections partners so customers can have an accurate and timely bill they can understand and so that the utility can reduce bad debt. They are able to measure their performance by the percentage of bills issued accurately and on time, the percentage of collection of all fees, and the reduction of "bad debt" by the utility. Billing and Collections is responsible for billing of water, sewer, and associated non-metered customer fees. All work orders generated within Customer Service are updated in CIS (Customer Information Systems) by the Billing and Collections team that allows for the proper billing of accounts. Timely and accurate billing allows for timely collections. This process affects all other areas in MWS Customer Service in regards to phone calls received, lobby visits, field work orders, and meter reading issues, as well as the financial responsibility of increased revenue. Billing and Collections issues over 1.8 million bills a year serving over 153,000 consumers. With the assistance of CSC Field Activities "bad debt" is less than 1 percent as indicated by reduction in 60-day receivables (un-audited).

Field Activities Program

The primary function of Field Activities is the maintenance and repair of water meters. Other duties include leak repairs in meter boxes, new service and termination of service for customers moving in and out of the service area, and investigations initiated by meter readers or requested by customers. In addition, Field Activities manages the on-going AMR (Automated Meter Reading) meter exchange program and the contract field collections program. Charges are billed through a department policy, not a council resolution.

Phone Center Program

The Phone Center answers all incoming customers' calls related to bills, new service, transfer service, terminate service, Stormwater Division inquiries, and System Service related functions. These callers are customers that choose not to use the automated services offered. In addition, the phone representatives assist in making leak adjustments to customer accounts and working the return mail. The Dispatch Sections is a 24/7 operation. These representatives answer all emergency calls related to water or wastewater. They initiate the necessary Service Request related to these calls and dispatch these calls out to the field reps when necessary, set up shutdowns and arrange for policemen or Tennessee One Call (Tennessee One-Call System, Inc., is a non-profit Tennessee corporation established in 1983, whose mission is to act as an advance notification service to operators of underground facilities anywhere within the state. Tennessee One-Call is governed by a Board of Directors and an Operating Committee. They are the only such service in Tennessee and are recognized as the "official" one-call service for the state of Tennessee), answer overflow customer calls provided the phone reps are busy, close and cost out SS (System Services) work orders, and work return mail and some perform adjustments on customer accounts.

Lobby/Cash Program

The Lobby/Cash Program provides customer assistance to water and wastewater users so they can receive services and make payments using convenient methods. They are able to measure their performance by the percentage of customers making payments through automated services, the number of customer service responses and the number of

extension/payment plans. The Lobby/Cash area is responsible for assisting customers in person and by phone with questions regarding services provided by Metro Water and accepting payments for services. The Lobby/Cash area can also assist customers with payment plans and alternative payment methods in addition to issuing work orders for new service, restore orders, investigations, and disconnects. This process affects all other areas in MWS Customer Service in regards to phone calls received, billing, meter reading and field work orders. On average, the Lobby/Cash area posts 23,000 payments monthly in the office and accepts 4,700 payments through the IVR (Interactive Voice Response) system.

Accounting

The Accounting function maintains the financial records, processes all payments, accounts for all money received, and ensures that all the transactions are properly accounted for. The primary responsibilities include safeguarding and accounting for the assets of MWS, which are approximately \$1.6 billion.

Personnel/Human Resources

The Personnel/Human Resources function maintains personnel files and records on all employees of MWS. MWS has its own training facilities to provide ongoing programs that fit the needs of each individual employee. MWS has its own Safety office to meet its Risk Management goals and objectives and a Occupational Health clinic providing health education through classes in hygiene and overall wellness for all employees.

Engineering

The Engineering function provides technical support to the department. Engineering is comprised of several divisions facilitating project management, coordinating service requests, reviewing and approving construction plans for adherence to department requirements, preparing drawings and updates all of the water and sewer line location maps, securing easements needed for utility construction, field inspection of all water and sewer line extensions, and other specialized design and maintenance functions.

System Services

The System Services function is responsible for the maintenance and repair of all water and sewer lines. In addition, they are responsible for the repair of manholes, meter boxes, valve boxes, cleaning of both sewer and associated lines, the tapping of water and sewer lines for new customer service, leak detection services for water lines, and televising existing sewer lines for elimination of leaks and failures. They also televise new lines built under contract to eliminate surface and leakage into the sewer lines. Another important part of MWS is Fleet Management. They are primarily responsible for all the cars, trucks, heavy equipment, repair and maintenance of compressors, pumps and rolling stock within the department. Fleet Management has the responsibility that is far reaching from the equipment standpoint with millions of dollars of equipment to look after.

Operations

The Operations Division operates and maintains two water and three wastewater treatment plants and their related water and sewage pumping stations. Operations is comprised of several functional areas providing technical support for water and wastewater operations. Part of the Operations Division is the Industrial Compliance Section which is responsible for administering

the Industrial Pretreatment Program for MWS and ten satellite communities as required by Federal Regulations. The purpose of the Industrial Pretreatment Program is to regulate the quality of wastewater entering the sewerage system, thereby protecting our wastewater treatment plants, biosolids quality, and, ultimately, the environment of Nashville and Davidson County.

Stormwater

The Stormwater Division is responsible for master planning, development plan review, water quality measures to ensure permit compliance, and stormwater management projects. The Stormwater Division issues grading permits for land disturbing activities within Metro Nashville and Davidson County.

Information Services

The Information Services function manages and maintains the hardware and software for micro-computers and their networks as well as the mainframe system

Administration

The Administration Division contains the Executive Leadership functions, Legislative liaisons for local, state, and federal agencies, and Public Information functions.

Metro Water Services Accomplishments for Calendar Year 2005

Below are some of the accomplishments achieved and provided to us by MWS for calendar year 2005. While the list is not all inclusive, it is important to provide some of the accomplishments from the audited areas.

- MWS fiscal year 2005 spending was below the approved operational and maintenance budgeted amounts;
- Initiated the construction of a new Biosolids Facility at the Central Wastewater Treatment Plant;
- Initiated the construction of biofilters for odor control project at Central Wastewater Treatment Plant;
- Initiated the construction of Dry Creek Facility Improvement Program, which includes odor control, biosolids facility modification, digestion, and secondary treatment enhancements;
- Improvements in disaster preparedness: facilities with 24-hour operations have been supplied with emergency provisions to sustain staff in event of emergency that prevents normal shift changes. Emergency response plan has been supplemented to include emergency reporting assignments to all personnel;
- Completed installing 70,511 automated meter reading (“AMR”) meters;
- 1,005 commercial meters were tested and repaired or exchanged;
- A new customer bill was issued with very favorable customer response;
- 60-day receivables show 100 percent reduction when compared to previous year;
- Implemented electronic PC banking in February 2005;
- IVR payments increased 26 percent from 64,605 in 2004 to 87,778 through November 2005;
- The number of meter reading routes were reduced by 68;
- 100 percent of all meters were read on time;
- Cost per meter read was reduced by \$0.09 to \$0.56 per read, a 14 percent reduction;

- The telephone answer rate in 2004 was 92 percent. In 2005, the telephone answer rate was increased to 94 percent;
- 3,500 new customer accounts were completed with 98 percent accomplished within a three day timeframe;
- Variance process implemented for meter and backflow device locations, improving customer service;
- Instituted new process on accepting Credit Cards through a lockbox;
- Decreased the number of lost injured on duty days from 722 in 2004 to 225 in 2005 saving \$57,497 in lost wages;
- Experienced 100 percent compliance with Tennessee Occupational Safety and Health Administration (“TOSHA”) Training Requirements with zero violations;
- Reduced Preventable Vehicle Accidents (“PVA”) from 13 to eight, a 38 percent reduction;
- The leak detection program, in partnership with System Services Division, identified and corrected approximately four mgd (million gallons per day) of water leaving the distribution system in the form of leakage during the first year of the program;
- Identification and planning of approximately \$4 million dollars of Water Infrastructure Rehabilitation Work;
- Commenced adding new water mains to our water hydraulic model and procuring a new hydraulic water model to account for water age and quality in our water distribution system;
- Implementation of a remote recording process with the Registrar of Deeds office, which eliminates the need to physically present legal documents for recording at their office;
- The Development Review process completed the review of 397 plats and approved 346 plats, completed 468 capacity studies, issued 442 Water/Sewer Availability Letters, approved 120,982 linear feet of water main extensions with an estimated construction value of \$6.05 million and approved 191,553 linear feet of sewer main extensions with estimate construction value of \$11.5 million;
- Retained State certification for all drinking water and wastewater parameters; and
- Reviewed and approved 448 construction plans.

Financial Information

Total budgeted positions for fiscal year 2006 were 669 for Water and Wastewater functions and 81 for Stormwater functions. The most current Comprehensive Annual Financial Report was independently audited by the accounting firm KPMG for the year ended June 30, 2005. The opinion based on the work performed by KPMG and other auditors was that the financial statements present fairly, in all material respects, the respective financial position of the government activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. The MWS audited financial statements for the period ended June 30, 2005 can be summarized below:

Statement of Net Assets

Assets

Current Assets	\$ 96,827,515
Capital Assets, Net of Depreciation	1,315,799,821
Other Non-Current Assets	<u>178,431,945</u>
Total Assets	<u>1,591,059,281</u>

Liabilities and Net Assets

Current Liabilities	65,738,459
Non-Current Liabilities	474,738,257
Net Assets	<u>1,050,582,565</u>
Total Liabilities and Net Assets	<u>\$1,591,059,281</u>

Statement of Revenue, Expenses, and Changes in Fund Net Assets

Operating Revenue	\$ 151,258,130
Operating Expense	<u>118,440,316</u>
Operating Income (Loss)	<u>32,817,814</u>
Total Non-Operating Revenue (Expense)	<u>(24,232,166)</u>
Income (Loss) Before Transfers	<u>8,585,648</u>
Capital Grants and Contributions	16,889,196
Transfers In	100
Transfers Out	<u>(21,306,493)</u>
Changes in Net Assets	4,168,451
Net Assets at the Beginning of the Year	<u>1,046,414,114</u>
Net Assets at the End of the Year	<u>\$1,050,582,565</u>

Statement of Cash Flows

Cash Flows from Operating Activities

Receipts	\$ 150,299,656
Payments	<u>(73,415,513)</u>
Net Cash Provide (Used) by Operating Activities	<u>76,884,143</u>

Cash Flows from Non-Capital Financing Activities

Transfers In	100
Transfers Out	<u>(21,306,493)</u>
Net Cash Provide (Used) by Non-Capital Financing Activities	<u>(21,306,393)</u>

Cash Flows from Capital and Related Financing Activities

Receipts	12,803,920
Payments	<u>(117,261,852)</u>
Net Cash Provide (Used) by Capital and Related Financing Activities	<u>(104,457,932)</u>

<u>Cash Flows from Investing Activities</u>	
Receipts/Proceeds	541,602,967
Payments/Purchases	<u>(514,137,922)</u>
Net Cash Provide (Used) by Investing Activities	<u>27,465,045</u>
Net Changes in Cash and Cash Equivalents	(21,415,137)
Cash and Cash Equivalents at Beginning of Year	<u>74,356,015</u>
Cash and Cash Equivalents at End of Year	<u>\$ 52,940,878</u>

Reconciliation of Operating Income (loss) to Net Cash Provided By (Used In) Operating Activities:

Operating Income	\$ <u>32,817,814</u>
Total Adjustments	\$ <u>44,066,329</u>
Net Cash Provided (Used In) Operating Activities	<u>\$ 76,884,143</u>

Non-Cash Capital, Financing, and Investing Activities:

Contributions of Capital Assets	\$ 8,858,620
Transfer of Capital Assets from Other Funds	0
Increase (Decrease) in Fair Value of Investments	\$ 95,162

Objectives, Scope, and Methodology

The primary objectives of this financial control and compliance audit included the following:

- An examination of business processes employed by MWS for billing and collection, purchasing and expenditures, payroll and personnel, petty cash, and fixed assets;
- Identification of weaknesses and strengths in the internal control environment and their impact on operations;
- Identification of the actual financial and/or operational impact on operations from weaknesses and strengths identified;
- Follow-up on previous audit findings related to the Lobby/Cash area; and
- Provide recommendations to MWS management that supply a direction for improvement in the internal control structure.

Our work focused primarily on the period July 1, 2004 through September 30, 2005 financial balances, transactions, and performance on the processes in place during the time of the audit. Certain analyses required the consideration of financial results, performance, and operations outside that time period.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by MWS and associated divisions. Management, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders were interviewed, and various aspects of MWS were directly

observed. We performed our procedures in accordance with generally accepted government auditing standards.

In discharging our professional responsibilities, we observed the principles of serving the public interest and maintained the highest degree of integrity, objectivity, and made decisions that were consistent with the broader public interest. Additionally, we were free both in fact and appearance from personal, external, and organizational impairments to independence. In applying *Generally Accepted Government Auditing Standards*, we used professional judgment when establishing scope and methodologies for our work, determining the tests and procedures to be performed, conducting our work, and reporting results.

Findings and Recommendations

Improvements to internal controls made by MWS have effected the overall control environment in a positive manner. Since the work we completed in 2002, over 90 percent of the accounting and procedural processes that we reviewed were documented and utilized by MWS. Being an enterprise fund, MWS has acted appropriately and addressed the importance of a well managed control environment by documenting accounting and related procedures to assist in evaluating current processes for potential efficiency gains and to decrease the potential loss of intrinsic information caused by employee turnover. Although we identified opportunities for improvements, the issues identified and our subsequent recommendations are, generally, process improvements and not a restructuring of the current processes.

We have listed below the reportable findings and recommendations for the objectives listed above. If an objective is not discussed below, no issues were identified or the issues identified were not to the level of a reportable condition and were verbally communicated through the course of fieldwork. Management has responded with “We Agree”, “We Agree with Exception”, or “We Do Not Agree” and supplied an explanation along with a high level action plan, if applicable.

Petty Cash

We reviewed three petty cash funds, one change fund, and two imprest cash funds with the accompanying replenishment transactions. From the review completed, we noted the following deficiencies:

1. Petty cash reimbursements made by MWS did not consistently include a business purpose as part of the support to determine if the expenditures were appropriate. From the 11 replenishments reviewed, 13 of the 176 transactions did not document the business purpose.

Audit Recommendation

All transactions should include a business purpose to accurately document the business relationship of each item purchased. By not documenting the business purpose on a receipt or a petty cash reimbursement request, questions could be raised relating to the actual need for the item(s).

Management Response

We Agree – Following the discussions with and review of our petty cash procedures by Internal Audit, we have instituted new policies which further define the need for a description of the business purpose to more fully document the need for the good(s)/service(s). Although our practice has been to verify business purpose with the employee at the time of reimbursement, the business purpose was not always required to be documented on the reimbursement request. The intent of the new procedure is to remove any doubt regarding the business purpose.

2. The \$400.00 petty cash fund and the \$25.00 change fund were not set up with Metro Division of Accounts as required by current Metro policy. Instead, the drawers were included as part of the \$5,000.00 imprest cash checking account.

Audit Recommendation

Metro Division of Accounts should be notified of both funds and MWS should assign an appropriate individual(s) to be responsible for each fund.

Management Response

We Agree – The petty cash fund was authorized by Metro Division of Accounts and we were authorized to set up the cashbox by Department of Finance prior to 1990. We are working with Division of Accounts and Treasurer's Office to implement changes to the imprest cash checking account. The \$400.00 cashbox will become a separate account of a \$375.00 petty cash fund and a \$25.00 change fund. The \$25.00 change fund in Engineering will become a separate change fund under the custodianship of the supervisor of that section.

3. The imprest cash custodian has not been adequately reviewing the signature authority on the petty cash reimbursement requests. Additionally, proper identification of the signature could not be provided for 21 of 176 reimbursements. For example, we found that a supervisor approved their individual petty cash reimbursement on three separate occasions and was not detected by MWS Accounting. Because MWS consists of over 700 employees, it is important that all petty cash custodians are aware of the approval signatures on the petty cash reimbursement requests to identify if the individual approving the item purchased has the authority to do so.

Audit Recommendation

We recommend that an approval list be created detailing the individuals responsible for approving transactions for each division. Additionally, all petty cash custodians should familiarize themselves with the signatures of those responsible for reviewing and approving transactions.

Management Response

We Agree – Following the discussions with and review of our petty cash procedures by Internal Audit, we have instituted new policies which further define the need for signatures to be clearly and easily identifiable. The new procedures state that reimbursement requests without identifiable signatures will be returned for correction.

4. The \$5,000.00 imprest cash checking account balance appeared to be too high. Currently, MWS utilizes approximately 140 procurement cards. Due to the large number of procurement cards, the need to make small purchases from the imprest cash checking account

or other petty cash fund should be reduced. The imprest cash checking account should serve as a convenience to replenish the other ten petty cash funds. All other small purchases should be utilized by procurement cards.

Audit Recommendation

Based on the average amount per replenishment (approximately \$1,800.00) and the replenishment rate (approximately once per month), we recommend that MWS should consider reducing the amount to a level that reflects their current needs.

During our fieldwork, management was researching what dollar level would be appropriate.

Management Response

We Agree – Following the discussions with and review of our petty cash procedures by Internal Audit, we believe there may be an opportunity to reduce the balance of the imprest cash checking account from \$5,000.00 to \$3,000.00. However, at this time, only 20 percent (approximately) of the workforce utilizes procurement cards. The majority of petty cash disbursements are for parking, plan review fees, and other work related reimbursements.

5. The \$25.00 change fund in Engineering is not being adequately maintained. We counted the \$25.00 change fund and found it to be \$10.00 over. Because receipts are not issued to individual customers, we were unable to identify the source of the overage or determine if all transactions were accounted for by the change fund custodian. Receipts should be issued to customers for all transactions with daily close-out procedures completed to prevent any misappropriations.

Audit Recommendation

A simple receipting and tracking process should be implemented to identify differences and prevent theft. To further reduce risks associated with receiving cash, MWS should also consider only accepting checks for transactions processed by Engineering. Lastly, MWS Accounting should work with Engineering and other MWS divisions to create procedures that account for low volume cash transactions.

Management Response

We Agree – Following the discussions with and review by Internal Audit, we believe there is room for improvement with the change fund held by the Engineering Division. The Engineering Division needs to implement a procedure for issuing receipts to customers for all transactions as well as daily close out procedures. We are currently working with the Treasurer's Office and Metro Division of Accounts to establish a separate change fund in the Engineering Division.

Expenditures

We reviewed the expenditures from July 1, 2004 to September 30, 2005 for compliance with procurement policies and general controls. In addition, we reviewed 14 of the top vendors under contract and tested for general contract compliance. From the review completed, we noted the following deficiencies:

6. Alcoholic beverages and Nashville Predator tickets were purchased for a contractor and MWS employees totaling \$2,271.89. Approximately two years later, the amount was fully reimbursed by all the participants.

Audit Recommendation

Alcoholic beverages and game tickets should not be purchased for any vendor/contractor or MWS employees. In addition to the purchase of game tickets and alcohol, the entire transaction appears to be a conflict of interest for MWS, whether or not a reimbursement was received from the participants. Reimbursements for unauthorized items should be completed within a reasonable amount of time.

Management Response

We Agree – This event was the final part of a successful project utilizing the concept of Partnering. Partnering strives to ensure that all parties to the project maintain an atmosphere of cooperation. When the reimbursements were requested, we received full reimbursement from all parties attending the event. Today, events of this nature or similar nature are not permitted by MWS.

7. We identified one of six projects (Dry Creek Waste Water Treatment Plant project) that had inadequate supporting documentation. The invoices received had the quantity and extended prices redacted. MWS paid the \$64,314.24 billed for stored materials.

Audit Recommendation

In order to adequately review an invoice, it must be complete and free from any defects so that the items purchased and delivered can be verified.

Management Response

We Agree with Exception – While unit price and extended price columns on the supporting documentation for stored materials were redacted, the total amount paid by the contractor to the supplier for materials stored on the project site were paid in full as indicated by the supporting documentation. The supporting documentation submitted tied to the amount claimed for payment of the stored material. The actual quantity and type of items delivered and stored on the job site was listed in the supporting documentation and verified by the inspection. Payment was made as per the schedule of values basis established at award of the project.

8. The supporting documents are discarded three months after the end of all projects by Engineering preventing any accurate follow-up or independent review.

Audit Recommendation

The Engineering department should retain a complete history (monthly p-sheet, pay request, invoices, bid table, contract, change order, and any information pertaining to the project) of the work performed on capital projects for five years as required by Metro Record Retention policies and procedures. Additionally, MWS Accounting should retain a copy of the pay request and/or invoice to support stored materials, or all the documentation not maintained by Engineering. Engineering implemented the written procedures for obtaining and maintaining documentation in January 2006.

Management Response

We Agree with Exception – MWS does retain the project documentation on closed projects. The inspector is required to complete daily reports for each day's work related to the specific project, and is encouraged to complete a diary document that includes information on every project that they are actively working on at a given time (the diary is useful as a detached, separate documentation of events and activities should conflict arise in the future). The "red line" drawing created by the inspector during construction is turned over to the Engineering Division's Records & Mapping/GIS work group for preparation of "as-built" drawings and incorporation of the newly - completed project information into our GIS mapping system. All pay requests, invoices, bid tables, contracts, change orders, and shop drawings are retained for the required level of time. As-built plans are retained as permanent records. In fact, as-built plans are frequently used as bases for future design work if the new work is on the same pipe or area of the old project. Working drafts of project documentation may be discarded after final documents are prepared and verified.

9. The review process for capital projects needs improvement. A complete review of work completed on projects is not completed each month or when the pay request is received from the contractor. Instead, reviews are completed when the project is about to be completed or shortly thereafter.

Audit Recommendation

To avoid inaccurate payments, MWS should reconcile each pay request. Part of that reconciliation should include verifying that the amount of supplies purchased and work completed is accurate and reviewing invoices for accuracy. MWS should decide whether MWS Accounting or Engineering should be responsible for assuring that payments made on open projects are accurate. If Engineering is deemed to be responsible, MWS Accounting should pay close attention to how Engineering is adhering to their procedures. If deviations are detected, MWS Accounting should become more involved or possibly oversee the payment process entirely.

Management Response

We Agree – Following discussions with Internal Audit and among the various sections involved, we believe the review process for capital projects has been strengthened. The project inspector reviews work performed in the field on the project by the contractor on a daily basis. The inspector coordinates with the contractor for preparation of the monthly pay estimate. The inspector certifies on pay estimate that the work performed to date is accurate. We also review projects at the sixty percent (60 percent) completion level for any potential payment issues.

Payroll

We reviewed the payroll records for 45 employees from fiscal year 2005 and matched the supporting documentation to the Metro payroll and accounting system (EBS) for accuracy. In addition, we reviewed the general process for preparing payroll entries. From the review completed, we noted the following deficiencies:

10. Leave request forms (actual source of leave of absence, agreement between supervisor and employee) could not be provided by several departments (Central, Permits, Engineering, and System Services). From the 45 tested, 18 employees did not have leave request forms. By not having proof of the request for time off with the manager's approval, future discrepancies between the supervisor and the employee's time and attendance could arise and not be proven by either the employee or MWS.

Audit Recommendation

The timesheets should be backed-up with leave request forms documenting when time is taken. Immediate action was taken by MWS central management requiring all departments utilize leave request forms for leave requests.

Management Response

We Agree – Following consultation with Internal Audit, we recommended the process be strengthened. On March 17, 2006, the Director of Water Services issued a statement requiring submittal of Leave Action Forms to verify balances shown in PeopleSoft. Beginning October 2006, MWS Accounting, together with a representative from each section, will conduct semi-annual reviews with section timekeepers to verify balances in PeopleSoft.

11. We identified two of the 45 employees reviewed that approved and submitted their own time. One employee submitted and approved their own first response time and the other employee submitted and approved their overtime. By not having the supervisor review and approve time worked, timesheets may contain unauthorized hours or be incorrect.

Audit Recommendation

Supervisors should review and approve employees' timesheets to document the review and approval of hours worked.

During our fieldwork, MWS management addressed this issue with the individuals involved to discontinue the practice of submitting their time without supervisor review.

Management Response

We Agree – Existing departmental processes have been reviewed and reinforced to minimize the likelihood of future occurrences.

12. Divisional Timekeepers do not appear to be reviewing leave request forms against the leave accrual record in PeopleSoft. Of the 45 employees tested, four had variances between the departments' leave request forms and leave accrual record. Approximately 680 hours of vacation and sick were supported with the leave request forms and leave accrual records showed approximately 1,200 hours taken, computing a difference of 520 hours of time taken not supported by the leave request forms. Additionally, 11 of the 45 employees tested had used vacation amount variances between departmental records and EBS. Approximately 43 hours of vacation were not applied to the employees accrued vacation leave balance and were not entered into EBS. By not reviewing the leave accrual record against the leave request forms, variances could be present and not detected by the employee or MWS.

Audit Recommendation

Reviews should be completed comparing leave request forms to PeopleSoft and EBS to identify differences.

Management Response

We Agree – Following discussions with Internal Audit, existing departmental processes have been reviewed and reinforced to minimize the likelihood of future occurrences. Beginning October 2006, MWS Accounting, together with a representative from each section, will conduct periodic reviews with section timekeepers to verify balances in leave request forms with leave accrual records.

13. Standard time reporting formats are not used by MWS preventing procedural efficiencies from being gained. MWS should utilize a standard electronic timesheet that can be e-mailed to MWS Payroll from every division.

Audit Recommendation

By using a standard format for reporting time and attendance, efficiencies should be gained from not keying time in twice to adjustments made to completed timesheets. Standard timesheets should also serve as the actual back up for time and attendance completed by the employee and reviewed and approved by the supervisor.

Prior to the release of our audit report, management implemented a standard timesheet format for all divisions to utilize for time and attendance.

Management Response

We Agree – Following consultation with Internal Audit, MWS Accounting has reviewed the standardized timesheet and plans for implementation no later than October 31, 2006.

Fixed Assets

We traced 26 fixed assets for completeness and accuracy of the records maintained by MWS. The 26 assets selected for testing were traced to their location in the field along with an evaluation made on the overall condition. A determination was made as to the level of physical safeguards. Due to the fixed asset listing containing so many items, we grouped and subtotaled the assets by their “code description”. Then we determined the risk for each category and if each group would have dual use possibilities (for personal and business use). After we separated all the fixed assets by their code description and determined risk levels, we separated the groups assigned a medium or high risk level and isolated possible test selections.

Because the fixed asset listing contained so many fully depreciated items, we selected seven to determine if the assets still exist. To determine our test population, we sorted the fixed asset listing by their “value” and reviewed as appropriate to isolate possible test selections. From the review completed, we noted the following deficiencies:

14. Based on our review of fixed assets, we identified two divisions (Omohundro and Whites Creek) not keeping a list of their fixed assets. Because the divisions do not keep track of

their assets valued over \$5,000.00, we could not locate 11 (\$205,216.71) of the 26 assets selected for testing.

Additionally, we identified four of 26 assets that were transferred to another division but were not adjusted on the fixed asset list obtained from EBS. When assets are transferred to another division, MWS should change the ownership of the assets to accurately account for the assets being transferred. By not accurately maintaining a current listing of fixed assets, differences may not be detected that could result in losses or theft.

All seven of the assets reviewed that were fully depreciated, purchased in the 1970s, and have been disposed and/or surplusd were not removed from the fixed asset list in EBS. We also identified \$17,530,565.78 of the \$127,967,363.90 of total fixed assets that were fully depreciated from the 1960s to the 1990s that may need to be removed from the current fixed asset list.

The Fixed Assets Coordinator could not provide evidence of the previous inventory count. Additionally, a complete fixed asset inventory has not been completed at any point in the past three years. As required by current Metro policy, each division responsible for fixed assets should perform an annual inventory and send the results to the Fixed Assets Coordinator at MWS Accounting for updates to the master inventory list.

Audit Recommendation

Each division maintaining fixed assets should be responsible for performing an annual inventory. Additionally, the results should be sent to the MWS Fixed Assets Coordinator at MWS Accounting for updates to the master inventory list. After a fixed asset inventory has been completed, all MWS divisions should communicate with MWS Accounting all changes to assets over \$5,000.00 and any assets under \$5,000.00 that may have a dual purpose (work and personal).

When assets are transferred to another division, MWS should change the ownership of the assets to accurately account for the assets being transferred. By not accurately maintaining a current listing of fixed assets, differences may not be detected that could result in losses or theft.

MWS should review the group of assets that are fully depreciated and purchased prior to the 1990's to determine if the assets actually exist. Any asset not found or found to be unserviceable should be removed from the fixed asset listing.

Management Response

We Agree - Following discussions with Internal Audit and a review of existing procedures, we will reinstitute an annual fixed asset inventory by the end of December 2006. Through periodic fixed asset inventories, MWS Divisions are aware of the assets they have responsibility over. With constant replacement and upgrade, fixed asset inventories are under continuous change. The fixed asset inventory will enable us to keep accurate listings of all fixed assets and their location.

Cell Phones

We reviewed all cell phones utilized by MWS to determine if the expenditures for cell phone usage are appropriate and are in accordance with the established Metro cell phone policy. From the review completed, we noted the following deficiencies:

15. Based on our review of cell phone usage, we identified 14 to 23 users each month who did not use their cell phone minutes and/or direct connect minutes for at least one month from July 2005 through October 2005 with a monthly cost between \$282.70 to \$410.26. We also identified seven cell phone subscribers with no cellular minutes and/or direct connect minutes used for four consecutive months. These seven cell phones incurred approximately \$350.00 in charges.

Audit Recommendation

Plan managers should review the entire subscriber list on a regular basis to isolate those who are not using their phone and determine if the need for a phone actually exists.

Management Response

We Agree – A new process will be developed to report upon and address cell phones without usage.

16. We identified 132 of 437 phones that were damaged with a cost of \$801.36 within the last three years. The broken phones appear to be caused by user negligence.

Audit Recommendation

Due to the large number of phones that were damaged, MWS should implement a corrective disciplinary action policy that addresses the consequences of damaging MWS cell phones. The policy should be modeled after the Civil Service rules governing employee conduct.

Management Response

We Agree - We request that Metro Human Resources create this policy and apply it as a Metro wide policy.

Permits Customer Connections

We reviewed the deposit process and made a judgmental selection of deposits made by Permits Customer Connections from July 1, 2004 through September 30, 2005 and tested for general internal controls and for compliance with applicable Metro policies and procedures. In addition, we reviewed the fee collection process, deferred payments and liens collection and tracking, credit card transactions, voids, refunds, cost recovery billing, and developers' equity. Also, we discussed the reports listing customers with sewerage and no water and the water without sewerage with management and resolved any outstanding issues. From the review completed, we noted the following deficiencies:

17. Through our deposit testing and process documentation, we identified that someone independent of the deposit process is not reviewing deposits. Also, a detailed transaction

report is not completed and compared to deposit information to verify that all transactions processed are being deposited.

Audit Recommendation

We recommended that a report be created showing transactions for a given time period. Once created, the report should be compared to the deposit detail verifying the accuracy of the deposit. After the verification, a manager should approve the transaction.

Management Response

We Agree – The recent implementation of our KIVA software will be able to address these recommendations.

18. Permits Customer Connections is not receiving any reports to identify when liens should be removed. Currently, Permits is relying on Billing and Collections to send a notification letter to them when a customer has paid their obligation in full. We had Permits Customer Connections obtain a report from HTE (customer account software) listing the number of open liens to research the status of the liens. Of the 20 liens listed, 11 were current and the rest need to be released.

Audit Recommendation

Because Permits Customer Connections relies on Billing and Collections for notification, we recommend that the current report be verified as to completeness and newly created liens be added directly to the report. By adding each newly created lien to the existing report, the release date could be calculated with relative ease. By maintaining the lien information, including when the lien should be released, Permits can contact Billing and Collections and ask for customer status on an as needed basis (by the calculated lien release date).

Management Response

We Agree – We will review the current report to verify its completeness and create the steps to add newly created liens directly to the report.

19. Permits Customer Connections is not tracking the amount of cost recovery receivables that is due. Based on discussions with management and process owners, the actual receivable amount is not known. By not knowing what is actually due, the precision of collections is not known. For example, Field Activities also has a cost recovery program. Since MWS Accounting is responsible for tracking and recording all payments received, portions of the amount due to Permits could not be collected, recorded to Field Activities, or recorded incorrectly to a general revenue account.

Audit Recommendation

We recommended that Permits track the amount that is actually due as a receivable to fully recover their costs.

Management Response

We Agree – MWS ITS, Permits, and MWS Accounting have begun reviewing our processes and reporting to implement new procedures to track these costs.

20. Developers equity is not being tracked to identify when or if the amount of the initial deed transfer to MWS has been exceeded by granted tapping rights. Additionally, the developer's equity program utilized by MWS needs to be reviewed to determine if current pricing meets the services provided. The initial purpose of the program was to provide developers benefits for infrastructure improvements through free water and sewerage tap rights for 15 years. Based on our work, we were unable to find an instance where the tap fees collected exceeded the development cost.

Audit Recommendation

We recommend MWS review the developer's equity program and the current tapping fee structure to determine if the current arrangement is equitable. If there is not enough flexibility in the fee structure, MWS needs to review the need for a developer's equity program. In order for MWS to have the flexibility to make necessary changes to developer associated fees, changes should be made to the Metro Charter providing avenues where MWS can recover costs, both direct and indirect, through periodic cost evaluations through reasonable evaluation periods tied to standard economic indices.

Management Response

We Agree – With the implementation of the KIVA Software System, we will be able to facilitate meetings between MWS Engineering and the MWS Accounting to evaluate this process. Further work and next steps need to be determined and identified so that we can meet all of the end users needs.

21. Current software limitation prohibits effective financial management. When we asked for information supporting customer transactions, software limitations would only allow research to be completed on a customer-by-customer basis prohibiting any substantial testing to be performed.

Audit Recommendation

Since Permits Customer Connections has implemented a new software package before the completion of our fieldwork, we concluded that a return visit will be necessary to test the new system/procedures and follow-up on any other outstanding issues.

Management Response

We Agree – KIVA was implemented on May 8, 2006. Our reporting and tracking abilities have been greatly enhanced. We have and continue to face the normal challenges associated with a new program. In addition, we expect to be impacted by The Codes Department going live sometime later this year and further adjustments may be necessary in our system.

22. We tested customers that had water services without sewerage and customers with sewerage services without water to see if the service relationship was accurate. We identified six customers that had sewerage services without water. All six accounts should have had water services. The six accounts were only billed for sewerage services for approximately six months. We identified 6,420 customers that had water services without sewerage. We recognize that some customers could have valid reasons for not having sewerage service in either the Urban or General Services Districts distorting the number of customers that are not being billed for sewerage.

Audit Recommendation

We recommend Billing and Collections review monthly the same reporting format we requested from MWS ITS. In addition, we recommend Permits Customer Connections research the 6,420 customers not being billed sewerage to determine if the account relationship is correct. To further assist in report analysis, MWS ITS should research the possibilities of adding a customer attribute denoting if the customer has a valid reason for not having sewerage to improve the efficiency of the report analysis.

Management Response

We Agree – Billing and Collections will develop a review process in conjunction with Permits Customer Connections and Engineering to review all accounts with only water services and accounts with only sewerage services.

Billing and Collections

Due to the high volume of transactions that flow through Billing and Collections, we documented all processes related to customer accounts. After understanding the process flow, we classified functions and responsibilities into three main areas: customer accounts that have flowed through without any exceptions, accounts with exceptions (zero reading on the meter, excessive usage, or low usage which all possibly can create an adjustment), and management oversight and review. In order to test the three functions identified above, we had MWS ITS create several MWS customer system reports. Based on those reports, we selected five of the highest adjustments from the January and July 2005 report and verified that adjustment procedures were followed and if documentation was available to support the adjustment. We selected five of the highest unexplained credits from the January and July 2005 report and verified that adjustment procedures were followed and if documentation was available. From the more than two adjustments report, we selected five of the customers with the highest amount of adjustments for only a burst pipe, commode leaks, or a water heater leak to verify compliance with MWS adjustment procedures and if support for the adjustment was maintained. We only selected the five highest to prevent performing additional work that would have yielded the same results.

We analyzed the zero flow report and asked questions about the numbers of customers with zero flow for more than two, three, and five months. From the adjustments made to MWS employee report, we verified that MWS employees did not receive unauthorized adjustments. We analyzed the number of forced bills to the actual processor volume to see if the number of forced bills could detect variances among how exceptions are handled among the processors. We discussed the unbilled services report with management and how they review. In addition to our discussions about the unbilled accounts and services, we tested ten non-statistical selections to determine if the accounts were reviewed by MWS and if the status of the accounts was correct. We discussed the frequency and purpose of the management reports to see if new or better reports could be used to improve account analysis. From the review completed, we noted the following deficiencies:

23. We tested five of the highest adjustments, five of the highest unexplained credits, and five other adjustments where leaks were not caused by an inside coupling leak from the months of January and July 2005. Through our adjustment testing procedures, we were able to

determine that support detailing why the adjustment was made and who the approver was is not being collected by Billing and Collections staff. Of the 15 tested, none had any type of evidence on file or in the customer billing system supporting the adjustment.

Audit Recommendation

Due to the large volume of adjustments made per year, we agree that obtaining support for each adjustment would be inefficient. We do, however, believe that support for certain types of adjustments should be required and kept on file. For example, when the Director of MWS approves an adjustment, the reason for the adjustment and the signature of the Director should be obtained and kept on file. Keeping a record of what happened and why it happened removes any questions about the legitimacy of the transaction. Additionally, we recommend that adjustments over a certain dollar amount should require a supervisor level or above approval and should have some form of support (i.e., affidavit to support the leak). Lastly, we recommend that all unexplained credits follow the same rules as adjustments made over an established dollar amount.

Management Response

We Agree – As part of new procedures, we will keep documentation of all approvals from the Director. In addition, with regards to residential adjustments, we are researching appropriate amounts to be established and will create a policy based upon our findings to ensure appropriate supervision and documentation.

24. We made a non-statistical test selection of ten unbilled accounts for the third quarter of fiscal year 2006 to determine if the accounts were reviewed by MWS and if the status of the accounts was correct. Of the ten reviewed, six should have been active.

Audit Recommendation

As we reviewed the account status with MWS, the accounts were activated and are now receiving monthly bills. Currently, unbilled accounts are reviewed on a quarterly basis. In our opinion, unbilled accounts should be reviewed on a monthly basis to identify and correct errors on a timely basis to maximize revenue.

Management Response

We Agree – Unbilled accounts are now reviewed on a monthly basis.

25. Based on conversations with the billing processors, a degree of variance is present when determining when to contact Field Activities to have the meter checked. By not having a standard number of zero readings to determine when to have the meter checked by Field Activities, multiple trips to the same location may be made which wastes resources and possibly reduces revenue. We believe there is an overlap with re-reads and work orders that could reduce the number of visits to one location and increase the accuracy of bill amounts.

Audit Recommendation

In our opinion, a standard number of zero consumption monthly readings should be used to determine if a re-read or a meter check should be performed. Of course, other factors should be considered (like knowledge of a location being vacant). We discussed our finding with management during fieldwork and they generally agreed with our conclusion.

Management Response

We Agree – Newly implemented procedures will require all requests for rereads to also include an investigation. We will also develop ongoing procedures to fully capture zero-reads.

26. Currently, refunds require approval at \$500.00 for residential customers and \$1,000.00 for commercial. We believe that the current dollar thresholds for supervisor approval need to be redefined. We believe that the amount established for supervisor approval compared to the average bill amount is not proportioned correctly. As provided by MWS, the average bill for residential customers is \$78.00 and for commercial is \$1,600.00.

Audit Recommendation

We recommend the dollar amount for residential and commercial customer refunds be adjusted to an amount closer to the average bill amount to increase the level of management involvement when issuing customer refunds. By requiring support and approval for refunds at an amount that has a relational correlation to the average amount billed, an increased level of management awareness will be achieved that may result in a decrease in the number of refunds provided.

Management Response

We Agree – Current procedures will be enhanced with specific amounts triggering supervisory review for both residential and commercial customers.

Lobby and Cash

We documented the Lobby and Cash teller process, which includes the opening process, daily customer transaction procedures, closing procedures, and reviewed accounting procedures at MWS Accounting. In addition, we vouched the five deposits from the period September 27, 2004 through October 1, 2004. Lastly, we followed up on our prior audit findings to determine what recommendations were implemented and if they were operating effectively as planned. From the review completed, we noted the following deficiencies:

27. Through our observations in the teller area, we noted that Nashville Electric Service (“NES”) payments received by MWS from NES customers paying their NES bills are not being recorded. By not having a record of what was received in regards to NES customer payments, a potential risk could arise in the event a customer questions whether a payment was correctly applied to their account.

Audit Recommendation

We recommend that a detailed daily log sheet should be completed each day in the teller/lobby area of all NES payments received.

During fieldwork, MWS implemented the above recommendation by creating an NES log sheet that is filled out in the teller area, and sent with the daily teller work.

Management Response

We Agree – Implementation of a process for tracking NES payments received has been established.

28. Septic tank booklets are purchased through the teller area by grease and sewage waste haulers who dump their waste on MWS property. Each booklet contains several tickets that have a dollar value that is related to the amount that is dumped.

Audit Recommendation

Since septic tank ticket booklets can be considered the same as cash, we recommend that they be properly safeguarded in a secure location. We also recommend that an inventory count be completed to determine how many septic tank ticket booklets there are on hand, and that the blue septic tank ticket booklets be pre-numbered on the outside of the booklet in the same manner as the yellow septic tank ticket booklets. By completing an inventory count and keeping the septic tank ticket booklets in a secure location, the potential risk for theft can be reduced.

During fieldwork, MWS inventoried and secured all septic tank ticket booklets.

Management Response

We Agree – Implementation of an inventory count and keeping the septic tank ticket booklets in a secure location has been established.

29. The current Teller Annual Rating Schedule tracking the number of errors needs review. Currently, dollar amounts and the number of incidents are too high allowing tellers too much room for error. By having performance standards that may be too lenient, tellers will not strive to improve their efficiency in performing daily functions.

Audit Recommendation

By holding tellers accountable to a more ridged annual rating schedule, tellers will concentrate more on their cash drawer, which in turn will result in less overages and shortages. We recommend that the Teller Annual Rating Schedule be redefined by lowering the dollar amounts and the number of incidents. Additionally, MWS should calculate the cumulative over/short incidents on a more frequent basis and provide feedback to tellers rating their performance.

Management Response

We Agree – Management previously revised our Teller Rating Schedule based upon a prior Internal Audit recommendation. We will continue to redefine our Teller's policy to adhere to even more rigid guidelines.

Follow-Up to Previous Audit Findings

During the previous audit completed in 2003 the following weakness were noted:

Management is not involved enough with the teller function.

- Management is not involved enough with the daily teller function creating an environment where inaccuracies are not monitored and problems are not resolved. For example, daily balance sheets are created by the tellers and not reviewed by management in a timely fashion. Also, management is not reviewing the daily balance sheet for over and short drawer amounts by individual teller.

Follow-Up Work and Conclusion

We reviewed the current MWS Teller's Guidelines, which states that tellers are required to notify their supervisor within 30 minutes if they are out of balance, and over/short amounts must be reported and signed by the teller. We also reviewed daily teller balance sheets and over/short reports to determine if the daily teller sheets and over/short amounts were being recorded and signed. We concluded that the teller daily balance sheets and over/short reports are being properly reviewed and recorded. We are satisfied with this policy and believe that the potential risk involved with not recording the over/short amounts has been reduced.

System Limitations prevent appropriate internal controls.

During the previous audit, the following weaknesses were noted:

- The HTE system allows tellers to enter the process date into the system for daily customer payments;
- The credit card system is not linked to the HTE system; and
- The individual teller stations are not linked together.

Follow-Up Work and Conclusion

We observed how tellers start their work day with the HTE system, and noted that the computer automatically enters the current day's date into the system. It was also noted that the teller stations are linked together. We are satisfied with the new system and believe that appropriate internal controls now exist.

Problems with the daily teller process restrain overall functionality.

During the previous audit the following weaknesses were noted:

- Tellers have access to making error corrections on customer accounts;
- Tellers have the ability to open and close batches at any time during the day;
- Daily teller reconciliation's are not always turned in on the same day; and
- Tellers do not complete the monthly balance sheet each day.

Follow-Up Work and Conclusion

We interviewed management and the lead teller to obtain a better understanding of the daily teller process. Based on our review, we noted that tellers must notify the lead teller when an error on a customer account has been made. The lead teller will make the correction to the customer account at that time. It was also noted that tellers are required to open one batch a day, accept on heavier days such as Monday's and Friday's. On the heavier days tellers are allowed to open two batches. The first batch will be closed before lunch and the second batch will be

opened after lunch. It was further noted that the tellers are required to turn in their daily reconciliation's before they leave at the end of the day. We are satisfied with these controls and believe that the previous potential problems involved with daily teller functions have been reduced.

An acceptable level of cash management does not exist.

During the previous audit, the following weaknesses were noted:

- The teller drawers are used to make change during the day;
- Tellers use the same drawer and carry forward any short amounts;
- The over amounts from the teller drawers are placed in an envelope and maintained in the safe without any tracking system;
- Tellers are allowed to maintain any amount of cash during the day;
- Tellers have access to the change drawer;
- The custody of the deposit does not transfer to the lead teller after they review the deposit information;
- Procedures to safeguard cash when the access is absent do not exist; and
- Access to the deposit bag should be excluded after the deposit bag is sealed.

Follow-Up Work and Conclusion

We interviewed the lead teller concerning these weaknesses. It was noted that the teller drawers are not used to make change and tellers are now required to use a different cash drawer each day, as well as a password to access the change machine. It was also noted that tellers are not permitted to have more than \$500.00 of cash in their drawer and teller overage and shortage amounts are now being tracked on a spreadsheet that gets reviewed monthly. It was further noted that completed deposits are transferred to the lead teller who is also responsible for safeguarding those deposits which includes restricting teller access to the completed deposit bags. We are satisfied with the controls that have been implemented and believe that an acceptable level of cash management now exists.

The security system does not supply the appropriate level of protection.

During the previous audit the following weaknesses were noted:

- Security tapes are not maintained for a long enough period of time;
- The video camera inside the teller room is stagnating and does not provide enough room coverage;
- Exiting the teller room does not require a security card; and
- The safe has been left open overnight.

Follow-Up Work and Conclusion

We viewed the teller area and spoke with management regarding the security system that monitors the teller area. It was noted that a security card is required to enter the teller room as well as a touchpad password. The video cameras inside the teller room provide sufficient coverage of the tellers and the safe. It was also noted that the safe is to remain locked throughout the day, and the security tapes are maintained for thirty days and backed up on hard disk. We are extremely satisfied with the security improvements that have been implemented and believe that the appropriate level of security now exists.

General problems exist for problem solving and procedures.

During the previous audit, the following weaknesses were noted:

- Detailed policies and procedures are not on file;
- Explicit descriptions for daily over and short amounts are not present;
- Contingency plans for system failure have not been created;
- Protocols for problem solving are not present;
- Appropriate teller training does not exist; and
- The first teller in does not have enough cash to start the day.

Follow-Up Work and Conclusion

We interviewed management and the lead teller to obtain information about the general control environment. It was noted that detailed policies and procedures have been created and implemented regarding daily teller functions, protocols for problem solving, and appropriate descriptions of how to handle over/short amounts. It was also noted that tellers are required to sign a statement confirming that they have received a copy of the policies and procedures manual, read the guidelines, and understand them. We are satisfied with these policies and procedures and believe the risk associated with problem solving and inadequately trained tellers has been reduced.

* * * * *

We greatly appreciate the cooperation and help provided by all of MWS management and staff. As evidenced by the action taken and documented above, all MWS process owners and managers assisted us with every aspect of our audit engagement and were proactive about all issues identified.

This report is intended for the management and policy makers of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

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