



November 7, 2018

To: Sean Lanier, Director of Water Resources and Engineering

From: Alice Garner, Internal City Auditor *Alice Garner*

Re: Review of Water Resources Fee Structure - Project No. 2018-12

We have conducted a review of the Water Resources Fee Structure, as scheduled per the FY 2018 Internal Audit Plan. During our 2018 risk assessment, management requested that we determine whether the current process of allocating the shared costs of the Customer Service Office (CSO) resulted in fair and equitable allocations. As a result, the objective of the review was to determine whether the miscellaneous fees collected by the CSO were being properly allocated to the utility departments that generated the respective fees. The review was conducted by Randall Bridgeman.

To accomplish our objective, we inquired with management, tested the annual CSO cost allocation calculation for adequacy and accuracy, reviewed the collection of miscellaneous fees on the Cogsdale system, and examined the allocation of miscellaneous fees. Our review included such tests as we considered necessary in the circumstance. Our review period was October 1, 2016 through September 30, 2018.

Based on our work performed, we conclude that the miscellaneous fees collected by the CSO were being properly allocated to the utility department that generated the respective fees.

We appreciate the cooperation and assistance provided by the Water Resources and Engineering department staff and other entities contacted during the course of the review.

Cc: Ocala City Council Members
John Zabler, City Manager
Sandra Wilson, Deputy City Manager
Bill Kauffman, Assistant City Manager
Ken Whitehead, Assistant City Manager
Emory Roberts, Director of Finance and Customer Service

BACKGROUND:

The City of Ocala bills its customers for utility services provided using the Cogsdale work order and billing system. Many services are provided including the following:

- Electric
- Water and sewer
- Sanitation
- Telecom
- Storm water
- Fire

Customer utility bills are calculated based upon either the usage of the respective utility or the square footage of the building. Electric, Water and Sewer bills are based upon meter readings of usage such as kilowatts or gallons of water. Sanitation utility billings are based upon residential or commercial usage rates established by the City of Ocala. Telecom Fees are based upon the level of service the customer contracts for and whether the customer is residential or commercial. Storm Water and Fire Service fees are based on residential or commercial and in the case of commercial buildings, are adjusted based upon the square footage of the structure.

All utility rates are approved by the City Council, generally by a City Ordinance and then modified as necessary by a Resolution. Approved Rate changes are updated by the IT Department in the Cogsdale system and then verified by the Utility Billing Department before utility bills are sent out to the respective customers.

The CSO handles the customer utility payments, billing inquires and other related functions including collecting miscellaneous fees. These fees include disconnect charges for non-payment and reconnect charges once the customer makes a payment that brings their account current. Because the Cogsdale system only has one account associated with miscellaneous fee collections, all miscellaneous fees are uploaded to an account in the financial system assigned to the Electric Utility Department.

Miscellaneous fees are a small portion of the total revenue generated by the City's utility departments. During the annual budget process, the fees collected are used to offset the operating costs of the CSO and are allocated to each utility department based upon their revenues generated in the prior fiscal year. Since the Cogsdale system does not have a separate miscellaneous fee account assigned to each utility department, City management feels that the allocation process is the most efficient method in handling the miscellaneous fees.

The miscellaneous fees collected in total are not adequate to offset the annual cost of operating the CSO. Each department is then charged back for their share of the CSO operating costs that were not offset by the miscellaneous fees. Based upon the amount of revenue that Ocala Electric Utility (OEU) collects annually, it may also be generating the majority of the miscellaneous fees.

The other utility departments derive a benefit via the allocation process versus what they may be generating in miscellaneous fees from their revenue collection process.

CONCLUSION:

Based upon the results of our review, we conclude that the current process of allocating the miscellaneous fees is the most efficient method of handling them. Because the Cogsdale system has only one account to record miscellaneous fees, the system does not allow for an automated process in which miscellaneous fees are directly allocated to the department that generated the respective fees. Management could explore the feasibility and the costs associated with augmenting the Cogsdale system to create individual miscellaneous fee accounts for each utility department. This could provide assurance that miscellaneous fee transactions were recorded into the appropriate general ledger account and for the correct amount; however, there may be unintended consequences to augmenting the Cogsdale system such as incurring additional costs associated with dedicating staff to perform monthly reconciliations of the miscellaneous fee amounts collected.