

AGENDA	Tuesday, September 10, 2013	
Informational Meeting	4:00 PM at Carnegie Town Hall	
Sioux Falls City Council	235 West Tenth Street	

1. Call To Order

2. Staff Report

A. Jim David, Legislative/Operations Manager

3. City Council Open Discussion

4. Presentations

A. Presentation of two Internal Audit Reports: Water Reclamation Industrial Billing and City Owned Real Estate by Rich Oksol, Internal Audit Manager

5. Executive Session

A. Personnel matters pursuant to SDCL 1-25-2(1)

6. Adjournment

The City Council may include such other business as may come before this body.

Date: 2013-09-10  
SIRE Meeting ID: 1988  
Meeting Type: Informational Meeting

YouTube:<https://youtu.be/oMQDf8f4jxk>  
Agenda Item: Not Assigned  
Item ID: 68851

The following document(s) are public records obtained from the  
City of Sioux Falls.

**Internal Audit Report 13-05**  
**Water Reclamation Industrial Billing Audit**  
**May 2013**



City of Sioux Falls  
Internal Audit Department  
Carnegie Town Hall  
235 W. 10<sup>th</sup> Street  
Sioux Falls, SD 57117-7402  
[www.siouxfalls.org/council/internal-audit](http://www.siouxfalls.org/council/internal-audit)

## **Water Reclamation Industrial Billing Audit INTERNAL AUDIT REPORT 13-05**

### **INTRODUCTION**

The City of Sioux Falls Water Reclamation Facility collects and treats wastewater from residential, commercial, industrial and regional customers. Internal Audit was requested to perform an audit of the billing process for the industrial and regional customers due to the uniqueness and complexity of the process.

### **BACKGROUND**

The City of Sioux Falls (City) has 12 industrial/regional customers which are billed on a monthly basis and account for approximately \$2M in annual revenue. Industrial customers are commercial businesses that have wastewater concentration strengths that are over a set amount. The regional customers are other jurisdictions that have agreements for the City to provide wastewater treatment. Some of the customers treat the wastewater before it enters the City wastewater facility and therefore are charged a flat rate per gallon based upon the flow rate for the facility. Other customers that do not treat the wastewater are charged for the additional handling and treatment of the wastewater along with the flow rate. The strength of the wastewater is measured on a sample basis which is typically a straight, random seven day period per month. The sample collected is tested at the Water Reclamation Laboratory for biochemical oxygen demand (BOD), suspended solids (SS), nitrogen (TKN), and oil and grease (O&G). The averaged sample data is used to calculate the monthly strength volume to be billed. The rates to be billed for the strength and flow of the wastewater are included in City Ordinance 22-11 and 50-12 or individual agreements (for regional customers). The sample and flow data are entered and the billing calculations are performed by the Wastewater Treatment staff and submitted to the Utility Billing office for invoice creation.

### **OBJECTIVES**

We reviewed the City Ordinances and agreements, the sample strength collection process, and a sample of industrial/regional customer billings to verify the following:

1. The Water Reclamation industrial billing process has adequate internal controls.
2. The Water Reclamation industrial billing process is in compliance with established rates.

## **SCOPE AND METHODOLOGY**

The scope of this audit included a review of the City Wastewater Industrial Billing process as of January 2012 through March 2013. We reviewed a sample of 33 billings from this time frame. We observed the sample strength collection process as well as the billing calculation process. We examined original documents, Ordinances and agreements, and held meetings with the Wastewater staff. We reviewed records in the City's computerized financial system. We reviewed prior audit reports.

## **RESULTS**

Our review of the Water Reclamation industrial and regional customer billings found the following various billing discrepancies:

- Incorrect billing rates were used on 7 of the 33 sampled customer billings rather than the established Ordinance or agreement rate.
- There were 4 of the 33 billings sampled that included keying errors in the entry of the sample results which resulted in an incorrect average calculation and therefore an incorrect strength volume charged to the customer.
- In one of the sampled billings, an incorrect flow amount was used for the billing.

All of the billing errors resulted in a billing that was lower than it should have been and therefore did not impact the customer adversely.

## **RECOMMENDATION**

We made the following recommendation that addresses the above referenced results regarding the Wastewater Reclamation industrial billing process:

The Wastewater Reclamation industrial billing process is a complex, manual process which can lead to errors. We recommend that additional controls be implemented to reduce the possibility of manual entry errors along with additional review by someone independent of performing the calculations to detect errors.

*Management's Response: See Attached Document*

## **CONCLUSION**

In conclusion, it appears that there are various billing errors occurring in the Wastewater Treatment Industrial Billing process. Additional controls and reviews should be implemented to reduce the errors.

## **AUTHORIZATION**

The Sioux Falls City Council approved this audit by resolution in December 2012 as part of the 2013 Annual Audit Program. The Internal Audit division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

## **STATEMENT OF INDEPENDENCE**

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

## **DISTRIBUTION OF REPORT**

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

## **PERFORMED BY**

Danette Schumacher  
Internal Auditor

Date: 2013-09-10  
SIRE Meeting ID: 1988  
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**Date:** 6/13/2013

**To:** Danette Schumacher, Internal Auditor  
Rich Oksol, City Council Staff/Internal Audit Manager

**From:** Mark Perry, Wastewater Superintendent *MP*

**Subject:** Water Reclamation's Response to Internal Audit Report 13-05  
Water Reclamation Industrial Billing Audit

I appreciate the information we received from the internal audit that was performed in April of 2013 on the industrial and regional customer billing process. We have prepared the following responses to the results listed below from the report.

### **Report Results**

1. Incorrect billing rates were used on 7 of the 33 sampled customer billings rather than the established Ordinance or agreement rate.
2. There were 4 of the 33 billings sampled that included keying errors in the entry of the sample results which resulted in an incorrect average calculation and therefore an incorrect strength volume charged to the customer.
3. In one of the sampled billings, an incorrect flow amount was used for the billing.

### **Water Reclamation Response**

1. After review by the division, only 4 of the 33 sampled customer billings were charged at incorrect billing rates. The 3 billing rates identified that were found to be correct were due to an incorrect previous year rate stated in the notification letter sent to the customer in August 2012. The information presented in the letter had no impact on the billings.

Keying errors found in the entry of two of the other remaining incorrect billing rates were found and noted. The errors were a result of a price per pound of TKN that was transposed resulting in an incorrect rate being utilized. These errors have been corrected.

The final error was due to an incorrect billing rate for flow being copied from an older spreadsheet. This error has been corrected.



## Water Reclamation Industrial Billing Audit Response

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2. To reduce the number of keying errors in the billing process Water Reclamation will review their billing process to determine if eliminating the double entry of laboratory data and flow data is possible with the lab software. This will involve internal meetings with administrative, laboratory, and environmental staff to ensure that any changes to the billing process will not negatively affect the customers. Also we will ensure that any changes will be communicated with the customers before being implemented.
3. To reduce the number of keying errors in the billing process Water Reclamation will review their billing process to determine if eliminating the double entry of laboratory data and flow data is possible with the lab software. This will involve internal meetings with administrative, laboratory, and environmental staff to ensure that any changes to the billing process will not negatively affect the customers. Also we will ensure that any changes will be communicated with the customers before being implemented.

In addition to the above actions a more detailed review of each bill will be completed before they are processed.

### **Report Recommendations**

We recommend that additional controls be implemented to reduce the possibility of manual entry errors along with additional review by someone independent of performing the calculation to detect errors.

### **Water Reclamation Response**

Water Reclamation appreciates the time and effort that the internal audit committee spent on completing the internal audit of our industrial billing process. This audit has brought several issues to our attention. We are already developing changes that can be implemented to reduce errors and streamline the process.

We believe that many of the errors found with the audit would be reduced if not totally eliminated if there were ample time to complete the billing. In the current process the flow data which includes some laboratory data from customers is sometimes not received until hours before it is needed to be completed into a billing format and sent to the Utility Billing Division for processing.

## Water Reclamation Industrial Billing Audit Response

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Water Reclamation is proposing to request from the Environmental Division that the flow and laboratory data be sent to Water Reclamation before the 15<sup>th</sup> of every month. If this is not a request that can be met on a monthly basis then Water Reclamation will be considering going to a billing structure that would bill the customers one month behind to have the adequate time needed to complete the billing accurately.

Another change being considered is to stop the double entry of the laboratory sampling results and send the actual laboratory results form to the customer along with the bill. With these changes our errors in the industrial billing process will be dramatically reduced.

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**Internal Audit Report 13-06**  
**City-Owned Real Estate**  
**June 2013**



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Sioux Falls, SD 57117-7402  
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## **CITY-OWNED REAL ESTATE INTERNAL AUDIT REPORT 13-06**

### **INTRODUCTION**

The City of Sioux Falls (City) is the owner of substantial real property which is used for various municipal purposes. As public service needs change, the plans for these properties may be revised and, on occasion, certain parcels may be in excess of the City's current need. This requires that each individual site be reviewed in terms of its potential for future public use, as well as its potential economic benefit to the City.

In the context of municipal finance, publicly-owned real estate assets tend to be among the most underutilized local resources available to a municipal government. While many of the City's assets or acquisition needs are not specifically intended to generate revenue, it is nevertheless possible that revenues from real estate assets can be realized to provide financial resources to achieve the City's goals.

The purpose of this audit is to acknowledge the value and importance of real estate assets to the City and to evaluate policies and procedures in place under which the City makes strategic decisions about the real estate it owns.

### **BACKGROUND**

The City's Engineering department acquires real estate as needed by City departments and is responsible for coordinating the sale of City-owned real estate. The City acquires real estate through purchase or by donation. Real estate is acquired for many different uses, including parks, water lines, drainage, or office space. A public bid process is used to sell City-owned real estate. As of May 2013, City-owned real estate had a book value of approximately \$134 million.

The Finance department is responsible for maintaining the fixed asset listing and receives documentation on acquisitions and sales from Engineering. The Geographic Information System (GIS) department receives updated listings of City-owned parcels from Minnehaha and Lincoln County on a monthly basis. In 2012, the City of Sioux Falls began utilizing ArcGIS Online (AGO) as an organization-wide mapping platform which allows users to generate data to create custom maps that cater to the needs of various City departments.

### **OBJECTIVES**

The objectives of the audit were to:

1. Evaluate the City's policies and procedures for the acquisition and sale of real estate,
2. Determine if the City's financial system accurately reflects real property owned by the City, and
3. Review the City's real estate inventory management.

## **SCOPE AND METHODOLOGY**

The scope of this audit included the City's policies and procedures for real estate asset inventory management and real estate acquisitions and sales from January 2011 through May 2013. We reviewed the City's fixed asset listing for completeness through verification with Minnehaha and Lincoln County property records. We tested a sample of real property acquisitions and sales to ensure policies and procedures were followed and the fixed asset listing was updated timely. We examined original documents, Ordinances, policy and procedure memo's and held meetings with Engineering and Accounting staff. We also reviewed records in the City's financial software and similar audits of municipalities for best practices.

## **RESULTS**

Our review found that the City has proper policies and procedures for the acquisition and sale of real estate and that those policies and procedures are being followed as established. Further our testing indicated that the City's financial system is updated on a timely basis to reflect changes in real property from the result of donations, purchases, and sales. We noted all supporting documentation was on file and required authorization was obtained when necessary.

## **RECOMMENDATION**

We made the following recommendation that address areas we believe will improve the City's real estate inventory management.

We recommend that the City implement a Real Estate Asset Management Policy related to acquiring, holding, and disposing of real property. The purpose of this policy is to acknowledge the value and importance of real estate assets to the City and to establish a sound framework under which the City can make strategic decisions about the real estate it owns and needs to acquire.

***Management Response: The Finance Department in coordination with Public Works/Real Estate will work to establish an asset management policy related to real property.***

The City's real estate assets are inherently valuable and can be managed in different ways over time to meet the City's goals and objectives. Applying strategic approaches to the City's real estate asset management and its acquisitions will help ensure that real estate assets are achieving not only their potential for public benefit, but also their potential economic benefit to the City.

***Management Response: As part of the asset management policy, the strategic approaches to managing real estate will be addressed.***

## **CONCLUSION**

The City of Sioux Falls has implemented and employees follow policies and procedures for acquiring and selling real estate. Transactions are properly accounted for on a timely basis. The addition of an Asset Management Policy will only enhance the efficiency and effectiveness of one of the City's most valuable assets. We thank the management and staff of the Engineering and Accounting departments for their cooperation and assistance throughout the course of this audit.

## **AUTHORIZATION**

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## **PERFORMED BY**

Kimberly Schroeder  
Internal Auditor