



CITY OF HAMILTON
CITY MANAGER'S OFFICE
Audit Services Division

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| TO: | Chair and Members Audit, Finance and Administration Committee |
| COMMITTEE DATE: | September 14, 2015 |
| SUBJECT/REPORT NO: | Audit Report 2014-17 Corporate Services and Public Works Water Billings Process (AUD15021) (City Wide) |
| WARD(S) AFFECTED: | City Wide |
| PREPARED BY: | Brigitte Minard 905-546-2424 x2088 Domenic Pellegrini 905-546-2424 x2207 |
| SUBMITTED BY: | Brigitte Minard CPA, CA, CIA, CGAP Acting Director, Audit Services City Manager's Office |
| SIGNATURE: | |

RECOMMENDATION

- (a) That the Management Action Plans as detailed in Appendix "A" of Report AUD15021 be approved;
- (b) That the General Manager of Public Works and the General Manager of Finance and Corporate Services be directed to instruct the appropriate staff to have the Management Action Plans (attached as Appendix "A" to Report AUD15021) implemented; and
- (c) That the Outstanding Business List Item "J" (Audit of City of Hamilton Utilities) be identified as completed and removed from the Audit, Finance and Administration Committee Outstanding Business List.

EXECUTIVE SUMMARY

At the March 24, 2014, Audit, Finance and Administration Committee Meeting, staff were directed to complete an audit of City utilities (Horizon, Water and Wastewater) including the process on arrears.

The audit reviewed the water and wastewater (WWW) billings process (including arrears) for residential and institutional, commercial and industrial (ICI) customers. The billings process from the time that the service is created to the point that it is disconnected was reviewed.

In 2014, approximately \$85M of water and \$80M of wastewater services revenue was generated for a total of \$165M.

The results of the audit are presented in a formal Audit Report (2014-17) containing observations, recommendations and management responses. Audit Report 2014-17 is attached as Appendix “A” to Report AUD15021.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: The testing and replacement of older water meters will result in a more accurate measure of the WWW services used by residential and ICI consumers. Since older meters tend to under-register consumption, the replacement of these meters may increase revenues in the future. It is not possible to estimate the amount of a potential increase in revenues at this time.

The management action plan includes the hiring of a contractor to execute a portion of this plan. The cost of the contractor was not specified by management.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

This audit was directed to be completed per item 21 of the Audit, Finance and Administration Committee meeting minutes (2014-002) for the March 24, 2014 meeting. The audit fieldwork was performed from December 2014 to January 2015 with some additional fieldwork completed in April 2015. The results of this audit are attached as Appendix “A” of Report AUD15021.

The Audit, Finance and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

- City of Hamilton-Water and Wastewater/Storm Arrears Policy
- City of Hamilton-Water and Wastewater Consecutive Estimated Accounts Policy

RELEVANT CONSULTATION

Appendix “A” to Report AUD15021 includes action plans which reflect the responses of management responsible of the administration of the Hamilton Water (HW) Division of Public Works Department and the Financial Policy and Planning Division of the Corporate Services Department.

**ANALYSIS AND RATIONALE FOR RECOMMENDATION
(Include Performance Measurement/Benchmarking Data if applicable)**

This audit reviewed the WWW billings process for residential and ICI customers. The audit scope was January 1 to September 30, 2014. It reviewed water utility services from the time that the service is created (i.e. when the WWW service is first metered) until the service is disconnected.

In 2014, approximately \$85M of water and \$80M of wastewater revenue was generated for a total of \$165M. As of December 31, 2014, more than 145,000 properties were metered. Of the metered properties, close to 17,000 (12%) meters are greater than 25 years old. These older meters consist primarily of small meters (less than 100 mm).

The audit evaluated if the Water and Waste Water/Storm Arrears Policy is being appropriately carried out. That is, whether reminder letters, final notices, 30 days Arrears letters, 60 days Arrears letters and Transfer to Taxes Notices are issued in the manner specified by this policy.

The audit also included testing adherence to the Water and Wastewater Consecutive Estimated Accounts Policy, which included evaluating if consumers with multiple consecutive estimated readings had their estimated readings increased as required per the policy. This policy is designed to provide incentive for account holders to provide an accurate reading.

A formal audit report containing observations, recommendations and management action plans was issued and is attached as Appendix “A” of Report AUD15021.

The main areas for improvement noted in Audit Report 2014-17 include:

- Implementing a program to test and replace the City’s small water meters (less than 100 mm);
- Monitoring water accounts that have four or more consecutive estimated billings in each billing cycle; and
- Billing accounts with four or more consecutive estimated bills at the increased rates specified in the Water and Wastewater Consecutive Estimated Accounts Policy.

Management and staff have agreed to implement all four of the formal recommendations. Specific action plans can be found in the attached report (Appendix “A” to Report AUD15021).

Audit Services conducted this audit in conformity with the *International Standards for the Professional Practice of Internal Auditing*. These standards require that Audit Services plan and perform the audit to obtain sufficient, appropriate evidence to support the findings and conclusions based on the audit objectives. Audit Services believes that the work performed provides a reasonable basis for the audit findings and conclusions.

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

Not applicable.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

- 1.2 Continue to prioritize capital infrastructure projects to support managed growth and optimize community benefit.
- 1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report AUD15021

BM: dp