



REPORT TO AUDIT COMMITTEE

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Staff Report

July 26, 2011

Honorable Members of the Audit Committee

Title: Discussion of Proposed Contract Audit of the Department of Utilities' Billing Processes

Location/Council District: Citywide

Recommendation: Provide direction to the City Auditor's office regarding the issuance of a Request for Proposal (RFP) to engage a contractor to complete an audit of the Department of Utilities' Billing Processes as outlined in the City Auditor's approved 2011-12 Audit Plan.

Contact: Jorge Oseguera, City Auditor 808-7270

Presenters: Jorge Oseguera

Department: Office of the City Auditor

Division:

Organization No: 01001201

Description/Analysis

Issue: An audit of the Department of Utilities' (DOU) Billing Processes was approved as part of the City Auditor's 2011/12 Audit Plan. Recent City Council action providing the City Auditor's office with \$120,000 for conducting audits by contract allows the City Auditor to consider which audits in his 2011/12 Audit Plan are best suited for contract. The City Auditor has determined that the DOU Billing Processes audit could be an excellent candidate for completion by a contractor while audit staff remain engaged on other projects.

Policy Considerations: None.

Environmental Considerations: None.

Sustainability Considerations: None.

Rationale for Recommendation: This report provides the Audit Committee with information that may be used to meet its responsibility to provide oversight and supervision to the City Auditor.

Financial Considerations: The cost of this audit would be funded out of the 2011-12 Office of the City Auditor's Budget.

Emerging Small Business Development (ESBD):

Respectfully Submitted by: 
Jorge Oseguera, City Auditor

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Attachments

None.

Background

The City's Department of Utilities (DOU) provides water, sewer conveyance, storm drainage, garbage, recycling and yard waste collection/disposal and street sweeping services. The DOU's approved FY 2011/12 budget is \$163 million, the largest enterprise fund department of the City. The DOU's operations are funded by rates charged for providing service. The DOU does not receive General Fund revenues. Identifying opportunities for cost savings through accuracy, efficiency and cost containment as well as effective service delivery can result in keeping rates as low as possible for City residents.

As part of its approved FY 2011/12 Audit Plan, the City Auditor plans to complete an audit of the DOU's billing processes. Recent City Council action providing the City Auditor's office with \$120,000 for conducting audits by contract allows the City Auditor to consider which audits in his 2011/12 Audit Plan are best suited for contract. The City Auditor has determined that the DOU Billing Processes audit could be an excellent candidate for management by the City Auditor's office and completion by a contractor. This would allow other City audit staff to remain engaged on other projects.

DOU Billing Processes Audit

Within the audit of the DOU's billing processes the contractor would evaluate the DOU's system of internal controls, test the accuracy of bills and assess the City's ability to recover what was billed. Given the size and complexity of the DOU, as well as the technical nature of this audit, the City Auditor determined that it may be well suited for performance by a contractor with expertise in utility billing.

A strong system of internal controls lessens the risk of loss of revenue to the DOU due to inaccurate billings, human error or theft. A risk assessment and series of tests will allow the consultant to determine the status of the DOU's current billing internal controls and recommend improvements.

A central purpose of strong internal controls in billing processes is to ensure accuracy. One key to accuracy is determining the actual current state of any factors that can change the rates charged to customers. According to the DOU's website, residents are billed on a monthly basis for all DOU services. The rates pay for, among other things, the services provided, improvements to DOU infrastructure, fuel, energy, chemicals, labor, mandated state and federal programs and regulatory fees.

One objective of this audit could be to determine how accurate the total rate assessed is based on the actual type and size of a property. Some DOU rates are based on multiple factors, such as the type and size of the property. For example, non-metered domestic water use rates are divided into single-family and multi-family residences and then further determined by the number of rooms in the residence. By physically assessing the accuracy of this information on a sample basis the consultant could determine if the

DOU is producing accurate bills. As the DOU rates are complex, the fieldwork to assess the accuracy of DOU bills will likely be more in-depth than this simple example.

The DOU handles the collection of its own delinquent accounts. This audit would assess the effectiveness of the current collection process and make any recommended improvements. The audit may also consider more complex and timely issues, such as the DOU's ability to recover utility service fees from the trustees' of foreclosed properties.

Timeline

Staff has developed the following schedule to conduct the audit:

August 2011	Present Request to Issue an RFP to City Council
Late August 2011	RFP Released
Mid- September 2011	RFP Proposals Due
Late-September 2011	Contract Approval by City Council
October 2011	Consultant Begins Work
TBD	Completed Report to City Council