



City of Chattanooga

Stan Sewell
Director

INTERNAL AUDIT
City Hall
Chattanooga, Tennessee 37402

Ron Littlefield
Mayor

September 28, 2009

Mayor and City Council
City of Chattanooga
City Hall
Chattanooga, TN 37402

RE: Sewer Fee Collections, Audit 09-05

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Sewer Fee Collections.

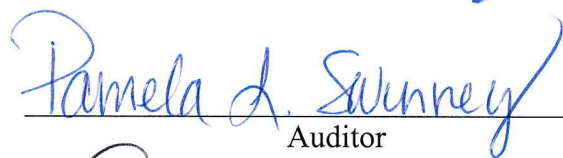
The Public Works department has already taken positive actions in response to our recommendations. We thank the management and staff of the Tennessee American Water Company and the Public Works department for their cooperation and assistance during this audit.

Sincerely,

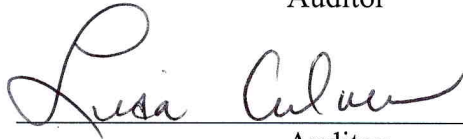
Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Audit Committee Members
Daisy Madison, City Finance Officer
Steve Leach, Public Works Administrator
Jerry Stewart, Director Waste Resources
John Watson, President – Tennessee American Water Co.

**PUBLIC WORKS
WASTE RESOURCES
SEWER FEE COLLECTIONS
AUDIT 09-05
AUGUST 25, 2009**



Auditor



Auditor



Audit Director

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INTRODUCTION

In 1950, The City of Chattanooga entered into an agreement with the City Water Company of Chattanooga (aka Tennessee American Water Company) to handle the billing and collection of sewer payments on behalf of the City. The contract automatically renews every five (5) years. Currently, Tennessee American Water Company submits a monthly remittance to the City for previous month sewer fee billings.

The City Council sets the sewer service rates by City Ordinance. Sewer service charges are based upon the quantity of water used as shown by water meter readings and shall be the dollar amount derived by applying the total charge in dollars per one thousand (1,000) gallons for the quantities of water shown in the following table:

User Class (gallons)	Fiscal Year 2008/2009-1 As of 10/01/2008	Fiscal Year 2008/2009-2 As of 4/01/2009
	Total Charges (\$/1,000 gallons)	Total Charges (\$/1,000 gallons)
First 100,000	\$4.98	\$5.12
Next 650,000	\$3.69	\$3.80
Next 1,250,000	\$2.99	\$3.08
Next 30,000,000	\$2.40	\$2.55
Over 32,000,000	\$2.30	\$2.45

In addition, the total charges derived from the above chart for residential users is multiplied by ninety (90) percent to compensate for water use not going to the sewer such as lawn and garden watering. Any residential location where a separate water meter has been installed for the purpose of lawn and garden watering is entitled to have the multiplier applied to any water consumed through the primary water meter. Each residence or apartment unit has a maximum monthly sewer service charge for a volume of no more than 12,000 gallons of water used; unless the minimum charge due to water meter size exceeds the 12,000 gallon limit, then the monthly sewer service charge will be at least the minimum for that particular size water meter.

Industries are charged extra for excessive Concentration of BOD and Solids. (Pretreatment Ordinance - Section 31-43) Industrial Discharge Permit Fee - \$ 500.00 annually. The Fee is the same for everyone and is only imposed on industries that are considered to be a significant user.

STATISTICS

	<u>FY07</u>	<u>FY08</u>
Sewer Service Charges	\$30,808,208	\$34,064,254
Sewer Surcharges	<u>3,737,690</u>	<u>3,786,624</u>
Total	<u>\$34,545,898</u>	<u>\$37,850,878</u>

Note: Figures from Banner System, Actual Revenues

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2009 Audit Agenda. The objectives of this audit were to determine if:

1. Tennessee American Water Company (TAWC) has collected the sewer fee rates in accordance with City Code.
2. Current City properties are being charged sewer fees by TAWC.
3. TAWC has calculated and remitted the proper sewer fee collections to the City.
4. Public Works department procedures to monitor sewer fees provide reasonable oversight of the TAWC billing function.

STATEMENT OF SCOPE

Based upon the work performed during the preliminary survey and the assessment of risk, the audit period covered sewer fee collections that occurred from July 1, 2008 to May 31, 2009. Source documentation was obtained from Public Works department, Finance department and Tennessee American Water Company. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

We reviewed the written policies/procedures and interviewed staff at Tennessee American Water Company and Public Works department to gain an understanding of the sewer fee collection process. In addition, we reviewed the 1950 Contract between the City of

Chattanooga and City Water Company, Internal Control and Compliance Manual for Tennessee Municipalities, the Chattanooga City Code and relevant City ordinances. In addition, we reviewed a sample of sewer fee collections and various supporting documentation.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Tennessee American Water Company has collected the sewer fees in accordance with City Code.
2. Tennessee American Water Company has properly collected sewer fees from customers located within the City limits.
3. We were unable to determine if TAWC had calculated and remitted the proper sewer fee collections to the City.
4. Public Works department should implement additional procedures to monitor sewer fee collections and to provide reasonable oversight of the TAWC billing function.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Public Works department they do present risks that can be more effectively controlled.

OUTDATED CONTRACT

The sewer fee collection agreement between the City and City Water Company (aka Tennessee American Water Company) was originally signed in 1950. During our review, we found neither the Finance department nor Public Works department could locate a copy of the contract. TAWC and City personnel were unaware of any written amendments or

revisions to the original contract. We obtained a copy of the contract from TAWC. During our review of the contract, we noted inconsistencies in the verbiage of the contract with current practices.

RECOMMENDATION 1

We recommend that Public Works Administration work with the City Attorney to develop an updated and comprehensive agreement with Tennessee American Water Company.

AUDITEE RESPONSE

We concur. The Waste Resource Division's staff has initiated contact with Tennessee-American Water Company to implement the recommendation.

RECOMMENDATION 2

We recommend the Public Works Administration institute a policy for periodic reviews of contracts, which should be included in their written policy and procedures manual.

AUDITEE RESPONSE

We concur.

INADEQUATE REPORTS AND RECONCILIATIONS

Tennessee American Water Company provides a monthly computation of sewer fee collections due to the City. The 1950's contract stipulates that TAWC provide the City monthly reports that support the monthly revenues, adjustments, and expenses as reported to the City. The Public Works department receives said reports in electronic format through an on-line TAWC portal. We discussed the use of these reports with Public Works staff and learned monthly reconciliations have not been performed. Also, Public Works department has not developed, as part of a comprehensive policy and procedures manual, a written policy to document procedures necessary to effectively monitor the sewer fee collections.

We randomly selected and reviewed six (6) months of sewer fee collections. We compared the monthly collection reports to the detail monthly billing, bad debt write-off and adjustment reports provided by TAWC. Using the data available, we were unable to determine if the sewer fees received were accurate.

RECOMMENDATION 3

We recommend that Public Works develop and implement written policies and procedures to address the monitoring and periodic review (reconciliation to supporting documentation) of the sewer fee collections submitted by third parties to the City.

AUDITEE RESPONSE

We concur.

RECOMMENDATION 4

We recommend the Public Works department require Tennessee American Water Company to provide sufficient electronic data to facilitate a complete reconciliation, in accordance with part 6 of the 1950 contract.

AUDITEE RESPONSE

We concur. The Waste Resource Division's staff has initiated contact with Tennessee-American Water Company to implement the recommendation.

RECOMMENDATION 5

We recommend Public Works staff perform a monthly reconciliation to verify the accuracy of the sewer fee collections submitted by TAWC.

AUDITEE RESPONSE

We concur.